Colt Industries Annual Report 1976

Financial Highlights

Year ended December 31

Colt Industries Inc and Subsidiaries

(In thousands of dollars, except per share data)

	1976	1975
Sales	**$1,266,511**	$1,022,759
Net earnings	**61,628**	52,127
Earnings per common share including common equivalent share	**8.30**	7.07
Earnings per common share assuming full dilution	**7.37**	6.34
Average number of shares:		
Common and common equivalent basis	**6,898,901**	6,751,339
Fully diluted basis	**8,342,783**	8,191,141
Working capital	**358,491**	309,656
Long-term debt	**263,422**	250,775
Shareholders' equity	**419,592**	375,087
Return on shareholders' equity at year-end	**14.7%**	13.9%
Shareholders of record:		
Preferred	**10,348**	11,674
Common	**25,692**	28,750
Number of employees	**26,800**	21,800

Cover: Donald Richardson, horizontal boring bar operator, mills faces of cylinder liner pads in the welded steel block of an opposed piston Fairbanks Morse diesel engine. Mr. Richardson has been employed by Fairbanks Morse Engine Division for 40 years.

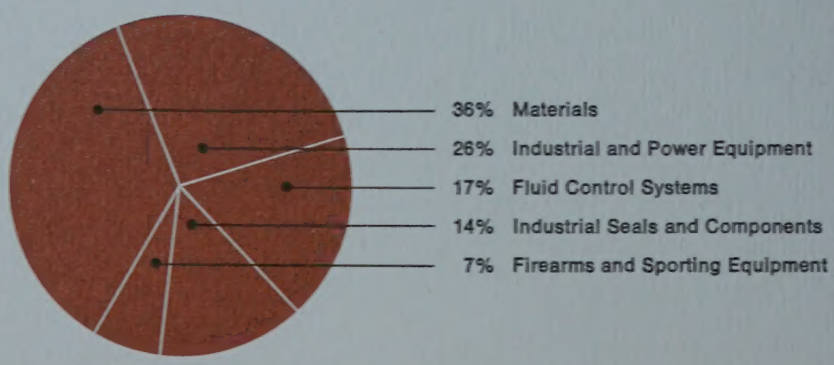
Overleaf: Molded glass-filled TFE seals made by a Garlock Special Products Division plant for use in hydraulic pumps sold to the farm equipment industry. Seals are shown on the oven sintering cycle chart that accompanies them through production to final quality control inspection.

Colt Industries is a diversified industrial products company. The products that comprise the company's five lines of business are well known in American industry, many played important roles in the industrial history of the nation, and each is a leader in its particular field. Names like Fairbanks, Fairbanks Morse, Pratt & Whitney, Crucible, Holley, Chandler Evans, and Garlock are identified with the inventiveness and technological advances that characterize American industrial progress.

Colt Industries provides materials, industrial and power equipment, fluid control systems, and industrial seals and components needed by American industry to function and to keep functioning.

Crucible specialty steels for home appliances or nuclear power plants. Fairbanks Morse diesel engines to generate electricity or propel an ocean-going tanker. Pratt & Whitney machine tools to fabricate intricate parts for other machines. Trent welded stainless steel pipe to carry liquefied natural gas from ships to shore storage tanks. Fairbanks weighing systems for rail cars and livestock or pharmaceuticals and food. Holley carburetors for cars and trucks. Garlock seals, gaskets, and valves to control fluids and prevent leakage. These are some of the many ways in which Colt Industries serves industrial America.

Sales



MIDNIGHT
1 AM
2 AM
3 AM
4 AM
5 AM
6 AM
7 AM
8 AM
9 AM
10 AM
11 AM
1 PM
PM
0 TO 800 OF
100
200
300
400
500
600
700

To Our Stockholders

The breadth and balance of the company's earnings base were clearly demonstrated in 1976 when the sluggishness of some specialty steels markets was more than offset by the earnings strength of our other industrial products.

As a result, we comfortably exceeded sales and earnings levels of the prior year; and, indeed, posted the highest sales and the second highest earnings and earnings per share in the history of the company. Sales were up 24 percent and net earnings were up 18 percent over 1975.

Net earnings in 1976 were $61,628,000, or $8.30 per common share, on sales of $1,266,511,000. This compares with net earnings in 1975 of $52,127,000, or $7.07 a common share, on sales of $1,022,759,000.

Two devaluations of the Mexican peso during the year adversely affected our earnings and resulted in a 33-cent reduction in 1976 per-share earnings.

Diversified and Balanced

The company's products are used across a broad spectrum of the industrial sector of the U.S. economy, and the diversification and balance achieved over the past decade have substantially broadened and strengthened our earnings base and made us less susceptible to the cyclical nature of some of the markets we serve.

Among the important contributors to our 1976 sales and earnings growth were our Holley carburetors, Colt firearms, Fairbanks industrial weighing equipment, and Garlock industrial seals and components. The increase in Holley carburetor sales reflected the strong upsurge in automotive sales and the growth and increased penetration of the automotive aftermarket.

Garlock Inc, acquired by Colt Industries at the beginning of 1976, continued the pattern of steady growth that characterized its performance over the past decade. Garlock products serve a broad range of industry both in this country and overseas. Many of them are in continuing demand both for original equipment and as replacement parts.

Demand was strong for Fairbanks weighing equipment for the transportation, warehousing, solid waste management, food processing, and other industries. Firearms Division volume was up for both the military and commercial product lines.

In addition, solid performances at approximately last year's levels were achieved by our Fairbanks Morse Engine, Fairbanks Morse Pump, and Chandler Evans Control Systems Divisions. The Trent Tube Division performed well, though at a volume considerably below the record level achieved in 1975. Its lower volume was a reflection of the continued low level of capital expenditure by basic industries. Machine tool orders began to recover, particularly in the larger, long-lead-time equipment for large metalworking customers.

The company's materials business, on the other hand, experienced a mixed year with rising demand and increasing new order input from the automotive, nuclear power, major appliance, and food processing industries and slack demand from the construction industry and capital goods manufacturers. Demand was also slack in the heavy construction and off-highway equipment markets. Although specialty steels import quotas were imposed about mid-year, heavy importation prior to the quotas and the high import level allowed by the quotas adversely affected U.S. volume and prices throughout the year.

Added Capacity

In keeping with our belief that planned capital programs should continue on schedule, we are proceeding with several projects designed to increase our production capacity and with product developments to enhance our competitive position in the marketplace.

The new 35-ton argon-oxygen decarburization system at the Crucible Specialty Metals Division in Syracuse, New York, is nearing completion and is expected to be in operation in the spring. The system is computer-controlled and will significantly reduce raw material costs and increase product range, yield, and capacity. Incremental improvements in materials-handling equipment, melting facilities, and finishing lines at our alloy and stain-

less steel mill in Midland, Pennsylvania, will both improve efficiency and increase capacity.

The new pipe and tubing plant completed in 1975 at our Trent Tube Division headquarters location in East Troy, Wisconsin, provides significantly increased capacity for small-diameter pipe and tubing for use by the petroleum refining, chemical, petrochemical, dairy, beverage, and food processing industries. In 1976, we began expansion of the Trent pipe and tubing manufacturing facility in Helmond, The Netherlands, to increase product range from the present 3 inches to 36 inches outside diameter. This increased capability and capacity will enable us to meet the growing acceptance of and demand for welded stainless steel pipe and tubing in European markets. The Helmond expansion is expected to be completed in the fall of 1977.

New Products Developed

A number of new products were developed and introduced during the year. The Holley Carburetor Division introduced a closed-loop feedback system featuring an electronically controlled carburetor that maintains the proper fuel-air ratio to control emissions and enhance fuel economy. This development is expected to increase in importance as more stringent federal controls on emissions and fuel economy go into effect.

The Pratt & Whitney Machine Tool Division is taking advantage of the commonality of components and modular construction of its products to produce a line of small, lower-priced, microprocessor-controlled, high-capability equipment for small machine shop operators. The Elox Division is extending its line of traveling-wire electrical discharge machining equipment. For use in the meat and food processing industries, Fairbanks Weighing Division has introduced a line of stainless steel bench and portable scales featuring microprocessor controls and electronic read-out. Other new products include a large helical screw Quincy portable compressor and new lines of Fairbanks Morse fire pumps and submersible solids-handling pumps.

In August, the Board of Directors raised the quarterly dividend on the company's common stock from 50 cents to 62½ cents a share. This increased the annual rate by 25 percent from the previous $2.00 to $2.50 a share, the highest level in the company's history. It was the second increase in the common stock dividend in less than two years.

In February of this year, we reached an agreement in principle with Menasco Manufacturing Company for Colt Industries to acquire Menasco through a merger. In the merger, each share of Menasco common stock would be converted into 0.475 of a share of Colt common stock, resulting in the issuance of an aggregate of approximately 1,046,000 shares of Colt common stock.

Menasco, headquartered in Burbank, California, is a leading supplier of landing gear assemblies for aircraft manufacturers. Its sales for the fiscal year ended June 1976 were approximately $80 million. The transaction is subject to negotiation and execution of a definitive contract and approval by the boards of directors of both companies and the stockholders of Menasco. The current time schedule calls for a meeting of Menasco stockholders and consummation in mid-May, 1977.

We believe that the productive capacity of American industry is not sufficient to meet the demands of a strong economy. As an efficient, financially sound producer of capital goods and equipment and a major supplier to the industrial sector, we are in a strong position to meet the needs of American industry as the economy strengthens and companies move to modernize their facilities and increase their productive capacity.

George A. Strichman
Chairman of the Board

David I. Margolis
President

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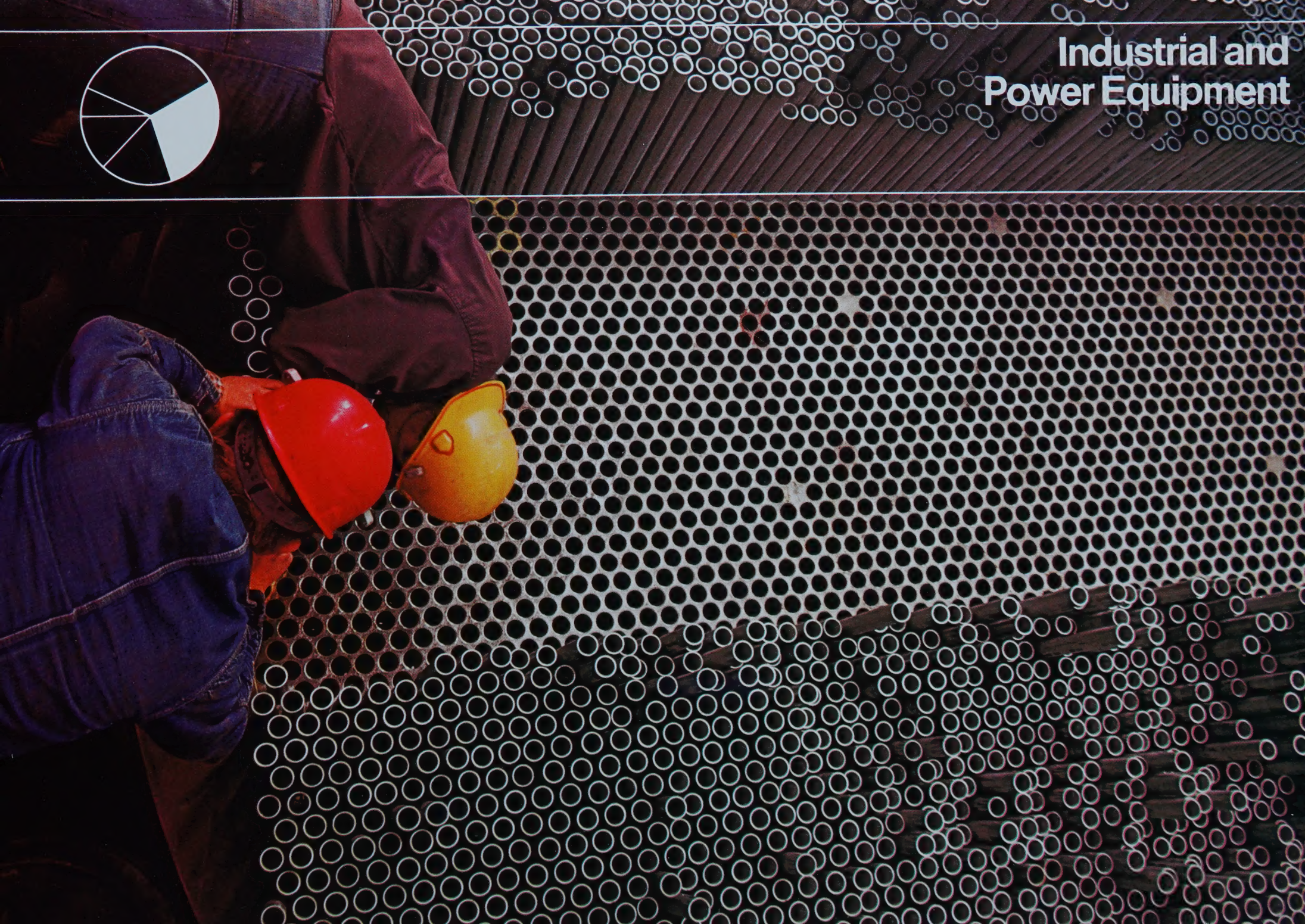
February 8, 1977



Industrial and Power Equipment

Trent welded stainless steel tubing is placed into the baffles of one of six huge reactor vessels destined for a chemical producing plant. The order, one of the largest ever received by the division, totaled 168 miles of 1.5-inch diameter welded stainless tubing in 20-foot lengths. The order was produced and shipped in only eight weeks.

For identification of employees pictured in this annual report, please see inside back cover.

The company's industrial and power equipment business accounted for 26 percent of total sales in 1976 and 24 percent of pre-tax earnings. This business encompasses such well-known industrial products as Fairbanks Morse engines, Central Moloney transformers, Pratt & Whitney and Elox production equipment, Fairbanks scales, Quincy compressors, and Trent and Crucible fabricated metal products.

Major markets for Fairbanks Morse diesel and dual-fuel engines are for standby power in nuclear plants, marine propulsion, and municipal power. The division also does a substantial business in aftermarket sales of repair and replacement parts.

Significant Order

In 1976, the division received a $15.8 million order from Bechtel Power Corporation for ten large Colt-Pielstick diesel engine generator standby systems for use at five nuclear power stations for backup electric power to operate safety systems. An order was also received from Philadelphia Electric Company for eight 12-cylinder opposed piston diesel engines.

The first two 12-cylinder opposed piston diesel engines for the U.S. Navy's Trident submarine program were shipped, and an order was received for five 8-cylinder diesel generators for Los Angeles Class nuclear submarines. The Engine Accessories Operation increased its sales of en bloc magneto and solid-state ignition systems.

In 1976, demand for Central Moloney distribution transformers increased substantially as electric utility companies expanded their operations to meet increased demand and provide electric service for newly constructed housing.

Emphasis in orders and shipments of Pratt & Whitney machine tools in 1976 was on the larger, more expensive equipment as that segment of the market recovered more rapidly than the small job shops. The division continues to extend its line of large, sophisticated machines while at the same time developing smaller machines with high-capability microprocessor controls for the small jobbers.

In 1976, the division applied microprocessor controls to its smaller numerically controlled lathes; introduced the Model C Tapemate, a small machining center with microprocessor controls and tool-changing features; and developed the TriMac VII, a smaller version of the large TriMac Vertical Machining Center. In development for introduction in 1977 are a small version of the Viking Horizontal Machining Center and a new Star-turn CNC lathe.

Sales of the Elox Division's standard vertical electrical discharge machining (EDM) equipment continued to show gradual improvement. Elox introduced two new models of its traveling wire feed machine.

Demand was up during the year for Fairbanks heavy-duty truck, livestock, and railcar scales; electromechanical truck and warehouse scales, particularly for use in solid waste management projects; and electronic scales for use in food processing. The new Series 7 line of stainless steel bench and portable scales features electronic readouts, microprocessor controls, and no moving parts.

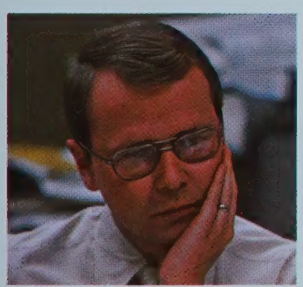
Quincy Compressor Division growth was paced by its line of helical screw compressors for industrial markets. Two new models were added to the line of portable compressors; and in 1977, the division will introduce its largest portable compressor, a helical screw model with an output of 1,750 cfm.

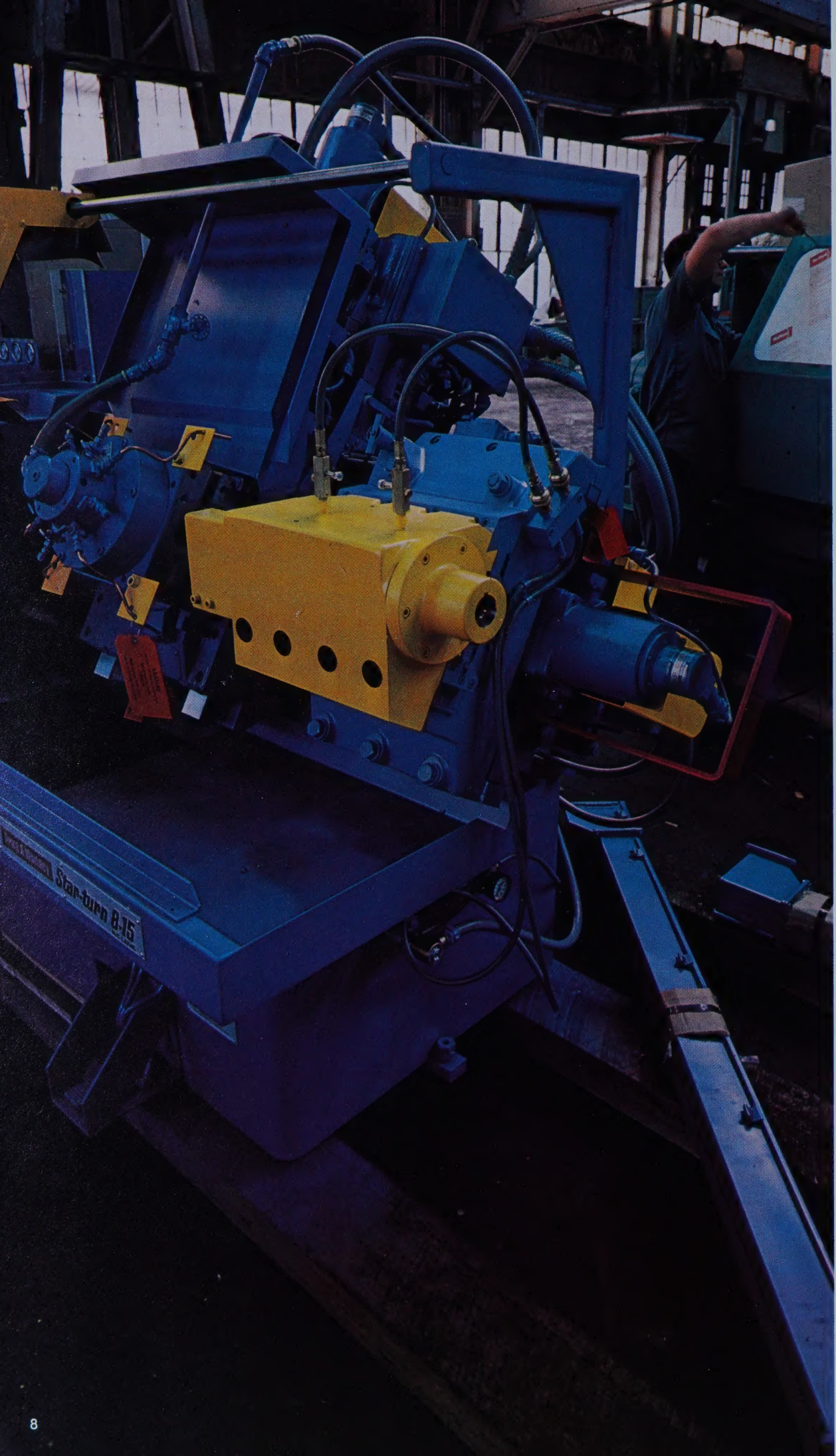
Electric Utility Shipments

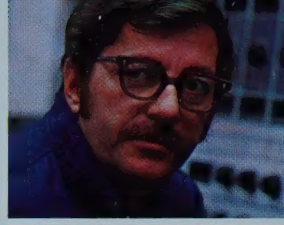
While the reduced volume of Trent Tube Division sales reflected the low level of capital spending in some industries, substantial orders for condenser and feed-water heater tubing were shipped to the electric utility industry. The first European Common Market order for nuclear pipe was received from the national utilities of Belgium and France for a power plant to be built at Tihange, Belgium.

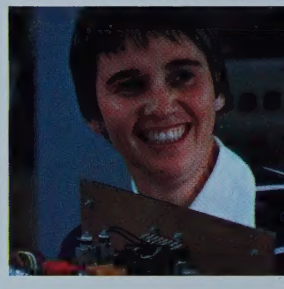
A $1 million order was received for large-diameter titanium pipe for use in an ethylene glycol plant to be constructed in Texas. The expansion of the division's plant in Helmond, The Netherlands, is expected to be completed in the fall of 1977 and will extend production capability from the present 3 inches to 36 inches in outside diameter.

With the upturn in spending for consumer durables, Crucible permanent magnet sales almost doubled in 1976. The reduced shipments of Crucible coil springs reflected the low level of railroad car replacements.







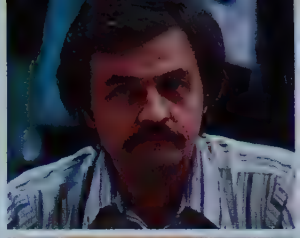


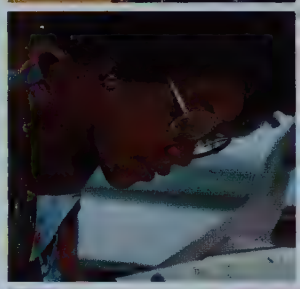
Left: The 8-15 Star-turn NC lathe is the best-selling numerically controlled lathe ever produced by the Pratt & Whitney Machine Tool Division. Now equipped with a microprocessor control system, the latest in NC technology, the 8-15 offers more flexibility and capability for less cost.

Right: The Quincy 850 direct-drive, diesel-powered, oil-cooled portable compressor, pictured in an Illinois limestone mine, can supply 850 cubic feet of air power per minute. Designed specifically for the construction and mining markets, it can be used to power underground and surface rock drills, pneumatic hammers, and a wide range of hand tools and spraying equipment.


Quincy
850

One of the biggest ore carriers on the Great Lakes, the 1,000-foot-long *James R. Barker,* launched during 1976, is capable of transporting 59,000 tons of taconite pellets at a speed of 14 knots. The *Barker,* first of a new generation of super-carriers, gets its power from two 16-cylinder Colt-Pielstick diesel engines, each rated at 8,000 horsepower, built by Fairbanks Morse Engine Division.





Left: Fairbanks Weighing Division recently introduced a new series of stainless steel bench and portable scales for food processing and other industries. Designed with no moving parts, the scales have a capacity of up to 1,000 pounds. The digital readout is displayed in one-fourth the time it takes a dial scale pointer to stabilize.

Right: Central Moloney 10-KVA pole-mounted transformers await shipment to a large electric utility company in the Southeast to distribute power in that region's growing residential market.

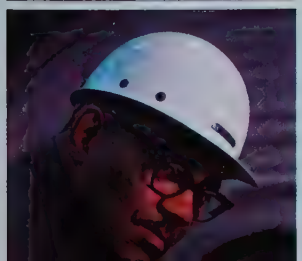
Thirty-five-ton computer-controlled argon-oxygen decarburization vessel at the Crucible Specialty Metals Division. The new $7 million AOD system, equipped with three vessels for minimal down-time, will go on stream in spring of 1977.

It was a mixed year for Colt Industries' materials business, with strong demand in some specialty steels markets offsetting the sluggishness of those markets adversely affected by the low level of capital spending. Specialty steels accounted for 36 percent of total company sales in 1976 and 17 percent of pre-tax earnings.

The company's specialty steels business is conducted by the Crucible Alloy Division and Crucible Stainless Steel Division, both at Midland, Pennsylvania, and the Crucible Specialty Metals Division in Syracuse, New York.

Demand improved for stainless steel sheet and strip for use in the restaurant equipment, food and beverage processing, and major appliance industries. Demand was also up for automotive valve steels and tool and high speed steels, as well as for stainless steels and alloy bars for use in the construction of nuclear reactors.

In 1975, the Crucible steel divisions joined with other specialty steel producers and with the United Steelworkers of America to petition the International Trade Commission for control of imports of certain specialty steels. The Commission recommended import quotas. They were approved by the President for a three-year period, subject to review, and went into effect about mid-year, 1976. The level of stainless and tool steel imports prior to the imposition of quotas was, however, high and the quotas themselves were high. As a result, foreign competition adversely affected both volume and prices in the U.S. market.



Capital Projects Proceed

Several capital projects to enhance production capacity and capability were carried forward during the year. The largest of these is the new 35-ton, computer-controlled, argon-oxygen decarburization system nearing completion at the Crucible Specialty Metals Division. The system, expected to be completed in the spring of this year, will permit reduced raw material costs and add significantly to the division's capability in terms of broadened product lines, improved yields, and increased capacity.

Installation of an automatic production recording system for the stainless steel cold finishing operations at Midland was completed during the year. The system's central computer provides up-to-the-minute information on the status of customer orders. In addition, it facilitates efficient scheduling of mill equipment.

Stainless steel finishing capacity at the Midland mill was expanded by installation of a coil-leveling line and equipment to increase the size of cold-rolled coils. The equipment trims and butt-welds short coils to make longer coils in 20 to 48-inch widths, providing customers with more yield per coil. The Crucible Alloy Division upgraded its material-handling equipment and production and melt facilities.

Computer System

The Crucible Specialty Metals Division completed installation of a computer system linking the division's 14 district offices with the main computer in Syracuse. The system improves inventory control, reduces costs, and speeds order handling and customer service. At year-end, the division completed relocation of its Cleveland district office and warehouse to a new and larger facility in Streetsboro, Ohio. The new facility is capable of handling and cutting large blocks of tool steel to meet requirements of producers of plastic molds and die casting dies.

Research and development activity at the Crucible Materials Research Center during the year was focused on further advances in the proprietary Crucible Particle Metallurgy process. Emphasis was on new processes for making superalloy and titanium alloy parts for high-temperature applications in jet aircraft engines. One of the new processes uses hot isostatic pressing of particles of superalloy or titanium, at high temperature and pressure, to produce a near net shape dimensionally close to that of the finished part. Less machining would, therefore, be required than for a conventionally forged part.

During 1976, the Research Center developed a new titanium alloy called Corona 5. The new alloy has the high fracture toughness needed in a number of parts for advanced military aircraft. The center also developed new rare earth cobalt magnetic alloys. The new alloys will have application in magnets for electric motors, computer printout equipment, and measuring instruments.

Tapping No. 1 blast furnace at the Crucible Alloy Division. Molten iron flows from blast furnace to submarine ladle car for transport to a Top Oxygen Converter where added materials and a blowing cycle convert iron to alloy steel. From the TOC, it is poured into ingots that are either sold or rolled into blooms, billets, and bars for shipment to customers.

Left: Cast ingots of stainless and tool steel produced in the electric arc furnaces at Crucible Specialty Metals Division await rolling and drawing operations that will convert them to bar, rod, and wire for shipment to customers. Numbers on ingots provide a record of the heat of steel from which the ingots were cast.

Right: Stainless steel sheet supplied by Crucible Stainless Steel Division is fabricated into large storage tanks at Paul Mueller Company, Springfield, Mo., for customers in the chemicals, pharmaceuticals, food processing, beverage, and dairy industries.


Fluid Control Systems

Vane stage housing of the main fuel pump made by the Chandler Evans Control Systems Division for the F100 jet engine that powers the U.S. Air Force F-15 and F-16 fighter aircraft. Inspector's probe light illuminates cam blocks that control the volume of fuel delivered to engine nozzles. Each engine produces up to 25,000 pounds of thrust.

The three divisions comprising Colt Industries' fluid control systems business area accounted for 17 percent of total 1976 company sales and 27 percent of pre-tax earnings. They are the Holley Carburetor Division, Chandler Evans Control Systems Division, and Fairbanks Morse Pump Division.

Holley gains in 1976 reflected higher demand for U.S.-produced cars and trucks and a strong upturn in the automotive aftermarket. In addition, the division's emission control air pump production plant in Oklahoma was running efficiently, although at a lower level than anticipated when the plant opened.

Electronic Carburetor

During the year, Holley introduced its electronically controlled carburetor, the industry's newest development in fuel-metering systems designed to meet the more stringent emission control and fuel economy requirements of the future. The Holley electronic carburetor operates with a closed-loop feedback system to maintain the proper fuel-to-air ratio. The new carburetor is scheduled to be on some 1978 model year vehicles in California to test durability and effectiveness.

With the advent of strict federal standards on both fuel economy and emission control, the importance of this Holley technological development is expected to increase. Holley continues to emphasize its role as a specialist in carburetion systems for small cars while, at the same time, enlarging its role as a supplier of original carburetion equipment for intermediate vehicles.

The 1976 second-half surge in the automotive aftermarket has continued into 1977. During 1976, Holley significantly strengthened its aftermarket position with a broader line of replacement products, increased penetration of independent replacement parts markets, and a strong supportive advertising program.

The Chandler Evans Control Systems Division had a good year in both sales and earnings. In 1976, there was a relatively high level of replacement parts sales for such commercial aircraft engines as the Lycoming T53, the General Electric J85 and CF6, and the Pratt & Whitney Aircraft JT3.

The division's 1976 sales were additionally bolstered by demand for its MFP-330 fuel pump used on the Pratt & Whitney Aircraft F100 engine that powers the U.S. Air Force's new F-15 air superiority fighter.

The volume and percentage of military sales will increase in the years ahead as demand grows for the MFP-330 for the F100 engines for the F-15 and F-16 aircraft and for the Chandler Evans AFP-20 afterburner pump for the GE 404 engine.

In addition, the division received in 1976 an engineering development contract from Martin Marietta for the fin actuation control system on the U.S. Army's 155mm. cannon-launched projectile. Chandler Evans is also the government-specified source for the engineering development of the fin actuators for the U.S. Navy's 5-inch, cannon-launched guided missile system and is on contract for the advanced development of fin actuator controls for the Navy 8-inch, cannon-launched guided missile.

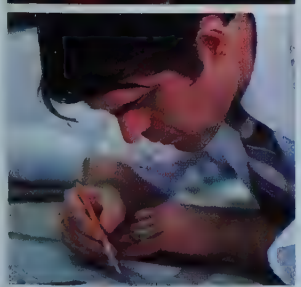
The national clean water programs administered by the U.S. Environmental Protection Agency provided a major stimulus to increased sales of Fairbanks Morse standard and engineered pumps in 1976. The EPA has committed or has on the drawing boards projects totaling $10 billion of the $18 billion currently authorized for primary and secondary sewage treatment facilities.

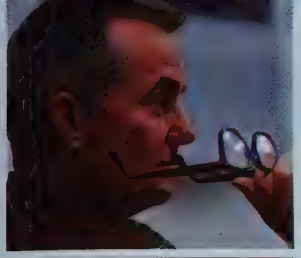
Complete Line

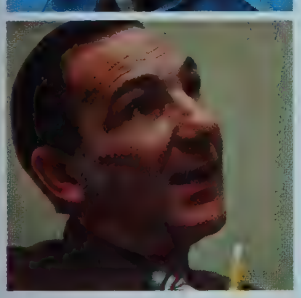
With a complete line of solids-handling centrifugal pumps through the 50,000-gallons-per-minute range, the Fairbanks Morse Pump Division is a leading supplier to the sewage treatment market. Among the largest installations is the sewage treatment facility at Jamaica, Queens, New York, pictured in this annual report.

The division has doubled its penetration of the agricultural irrigation pump market in the past two years. Contributing to this growth have been the high-performance Series 7000 line of deep well turbine pumps, reduced manufacturing costs, and a strengthened field selling organization.

During the year, the division introduced a new line of fire pumps, and a line of quick-disconnect, submersible solids-handling pumps for sewage treatment plants.







Left: New York City's Department of Water Resources recently installed three Fairbanks Morse 36-inch electric powered centrifugal pumps during an expansion of its Water Pollution Control Plant in Jamaica, Queens. They will move an average of 100 million gallons of sewage a day. During the expansion, two existing 16-year old, 42-inch Fairbanks Morse pumps were reconditioned and returned to service.

Right: Inspection of single-barrel carburetor produced by Holley Carburetor Division as standard equipment on 225 cubic inch, six-cylinder engines and as a replacement product sold in the automotive aftermarket.

Industrial Seals and Components

Medium-size Gar-Seal® TFE butterfly valve with a pneumatic actuator receives final adjustment prior to shipment from a Garlock Special Products Division plant. These butterfly valves handle corrosive fluids throughout the chemical industry at temperatures ranging from minus 40 to 400 degrees F. They are available in sizes from 2 through 42 inches.

Colt Industries' newest line of business, industrial seals and components sold under the Garlock product name, had an exceptionally good year. Generally high levels of machinery and equipment production, coupled with strong truck sales and a resurging automotive market, provided heavy demand for Garlock seals, gaskets, bearings, valves, and packings. Garlock products accounted for 14 percent of company sales in 1976 and 18 percent of pre-tax earnings.

Replacement Markets

Some of the more than 100,000 different Garlock products are used by almost every major industry in the world, wherever leakage must be controlled. Since sealing in fluids and keeping out dust, dirt, and contaminants often subject Garlock products to wear, they generally are replaced during periodic maintenance of equipment. Thus the replacement market is as important as the original equipment market.

With 15 manufacturing plants in the U.S. and 15 plants in other countries, Garlock's customers number more than 35,000 in 80 countries.

The Garlock Mechanical Packing Division, largest manufacturer of braided packing in the U.S., continued to turn out miles of the flexible braided packing materials used throughout industry to control leakage in such applications as pumps, ship propulsion systems, and pipeline valves.

Among the division's line of molded rubber products are couplings that go into every American car equipped with power steering. Garlock universal joint dust covers also are extensively used by the automotive industry.

For high-voltage transmission lines, the division supplies underground connectors; and Garlock flue duct connectors and expansion joints are sold to both fossil-fuel and nuclear power plants.

During the year, the Mechanical Packing Division opened a new plant in Sherbrooke, Quebec, Canada, for the production of asbestos yarn and cloth used in its manufacture of braided, twisted, and woven packing.

The Garlock Oil Seal Division is one of the main suppliers of engine, transmission, and wheel seals to the automotive industries in the United States, France, and Japan; as well as to auto makers' parts divisions which in turn supply dealerships. Garlock oil seals are used throughout industry, wherever a rotating shaft requires lubrication, both as original equipment and as replacements.

The Garlock Truck Products Division also had a strong year, due in large part to increases in truck sales and to the growing number of truck owners who have shifted from conventional to Stemco wheel lubrication systems. The Stemco® Hub-Seal system continuously bathes wheel bearings in oil, thus eliminating the need to pack bearings in grease. As a result, both downtime and maintenance cost are reduced.

Garlock Compressor Components Division experienced unusually strong demand for replacement parts, and its service centers throughout the U.S. and Canada were kept busy with compressor maintenance work.

The Garlock Special Products Division continued to turn out a wide range of seals, bearings, and valves designed to endure harsh and often corrosive environments. Garlock self-lubricating bearings are widely used in equipment ranging from snowmobiles to washing machines.

Early in 1976, a new plant in Thorofare, N.J., was completed for the production of DU® bearing material, a TFE-bronze-steel laminate for self-lubricating bearings. The division also introduced a new line of bearing material called GAR-FIL that combines TFE with fiber glass for added durability in high-stress applications.

Overseas Expansions

During 1976, Garlock Packing International Division opened a new manufacturing plant near Manila, Philippines, for the production of braided and asbestos packing products. The division also expanded the capacity of its plant in Barcelona, Spain, where a complete line of twisted and braided packing is produced.

The division's office in Zurich reports that orders from eastern European customers are increasing both in size and type. For example, large quantities of urethane seals have been sold to Polish manufacturers of coal mining equipment for use in hydraulic roof-support systems.

Left: Hub caps with red vent plugs identify wheel lubrication system made by Garlock Truck Products Division and sold as both original and replacement equipment for trucks and buses. Garlock's Stemco® Hub-Seal system allows wheel bearings to bathe in oil, thereby eliminating downtime required to pack bearings with grease.

Right: Garlock spring-loaded, silicone rubber seals are an integral part of car transmission pumps seen as they are fitted into aluminum transmission housings on an automotive assembly line. The Garlock seal (orange ring) surrounds the hub converter shaft where it will keep transmission fluid in and dirt and dust out.

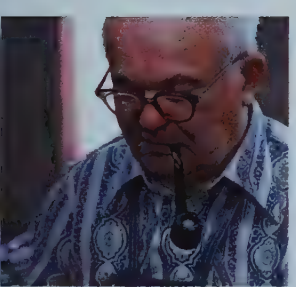
Firearms and Sporting Equipment

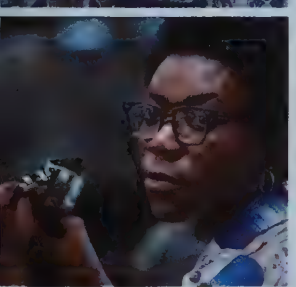
Master engraver in the Colt Custom Gun Shop at the Firearms Division hand shades the scroll work design on an officers' police MKIII .38 special revolver ordered by a collector.

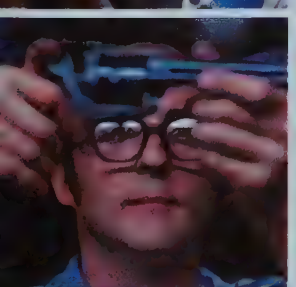
Firearms and sporting equipment accounted for 7 percent of company sales in 1976 and 14 percent of pre-tax earnings. Sales of both military and commercial firearms were up over the previous year. Substantial quantities of the M16 rifle were purchased both by the U.S. government and by the governments of friendly nations. Overseas sales are subject to the required approvals of the U.S. Departments of State and Defense.

With the increase in consumer spending and growing emphasis on leisure-time activity, sales of Colt Sauer rifles, the AR-15 Sporter rifle, and high-quality, large-caliber Colt handguns were up over the previous year. Sales of Colt commemorative handguns, including the black powder cap and ball models popular with collectors, continued to grow during the year.

All of the 1776 copies of the limited-edition Bicentennial Commemorative were sold. Packaged in a specially designed and handcrafted walnut chest, the Bicentennial Commemorative included a leather-bound edition of *Armsmear,* the biography of Samuel Colt first published in 1866, and three guns that trace the development of the revolver in the United States: the Third Model Dragoon percussion revolver, the single-action U.S. Army 1873, and the Colt Python.







Custom Gun Shop

Colt will continue to offer high-quality commemorative guns, and this year plans two issues. Late in 1976, the Firearms Division formally opened the Colt Custom Gun Shop at its plant in Hartford, Connecticut. The shop offers special limited editions of guns duplicating historic Colt weapons, custom engraving and gold and silver inlays, and special presentation guns for clubs and organizations and to commemorate special events.

These custom guns may feature grips of ivory or fine woods or grips made by American Indians of silver inlaid with turquoise or other semiprecious stones. The custom guns will be produced with special or personalized consecutive serial numbers that will further enhance their value to collectors.

Considerable effort was devoted during the year to improving production procedures and cutting costs on the commercial line.

Financial Review

The company's results of operations as set forth in the Consolidated Statement of Earnings reflect the 1976 sales and earnings of Garlock Inc, approximately 92 percent of the outstanding common shares of which were purchased during December, 1975. The results of operations of Garlock Inc were incorporated in the consolidated operating results of Colt Industries Inc beginning January 1, 1976. The assets and liabilities of Garlock Inc are included in the Consolidated Balance Sheet for both December 31, 1975 and 1976. On January 28, 1976, Garlock Inc was merged into its parent company, a wholly-owned subsidiary of Colt Industries Inc.

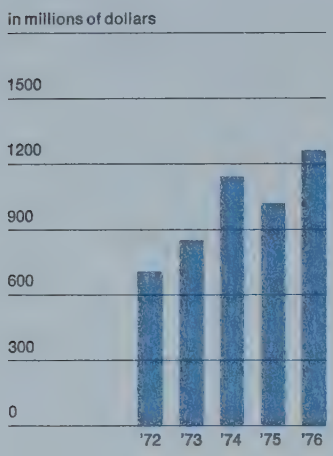
Sales in 1976 were $1,267 million, up 24 percent from $1,023 million in 1975. Net earnings for the year were $61.6 million, an increase of 18 percent over the $52.1 million in 1975. The year's sales reached a record level and earnings and earnings per share were the second highest in company history. The gains during 1976 are attributed to strong demand for many of the company's industrial products and the addition of Garlock Inc in 1976 which more than balanced decreased demand for specialty steels in certain markets adversely affected by low levels of capital spending. Throughout the year, the performances by Holley Carburetor, Garlock, Colt Firearms, and Fairbanks Weighing were important factors in the company's improved sales and earnings. The decline in 1975 sales from 1974 levels was primarily due to the downturn in the economy and the slowness of its recovery, resulting in low levels of operations in our specialty steels business.

The 1976 increase in costs and expenses results primarily from the addition of Garlock's operations and from the higher costs for energy, wages, fringe benefits, maintenance, and depreciation. During 1976, the company incurred a $2.6 million loss, net of gains, as a result of exchange rate fluctuations principally due to devaluation of the Mexican peso, including the effect of translating inventories as sold at the new exchange rates. The company's 1976 earnings include income of $1.4 million after tax resulting from the prepayment of $55 million of bank notes from the proceeds of a private financing, arranged during the second quarter, of 20-year senior promissory notes. Costs and expenses for 1975 were directly related to the volume of business and to inflationary cost increases in such areas as purchased materials, energy, wages, and fringe benefits.

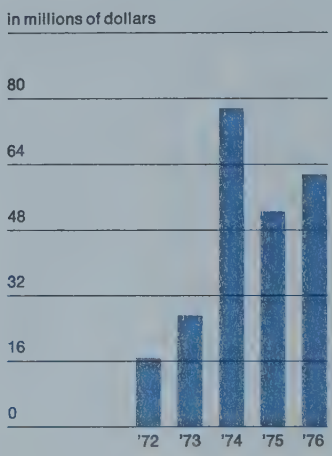
The increase in interest expense for 1976 compared to 1975 was due to the addition of Garlock's interest expense and to higher interest rates. The lower interest income reflects lower average cash balances in 1976 as a result of payments on the cash tender offer for Garlock. The changes in 1975 interest expense and income from 1974 were basically a reflection of the changes in the prime rate.

Sue McNaughton, packer in the Trent Tube Division's shipping department, East Troy, Wisconsin. Mrs. McNaughton is one of several thousand women employed in Colt Industries' plants and offices around the world.

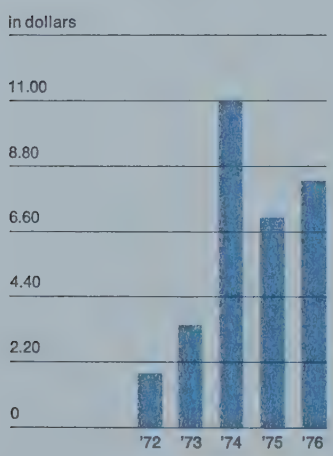
Sales



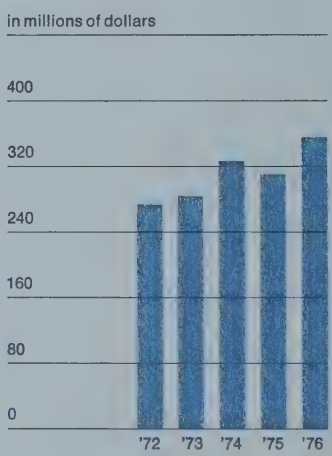
Net Earnings



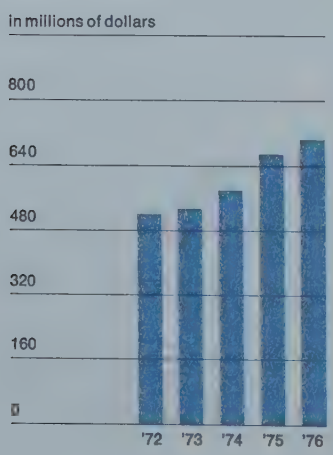
Earnings per Share



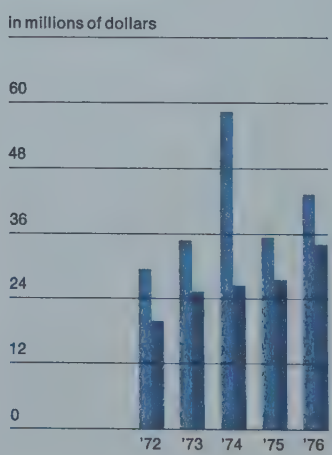
Working Capital



Fixed Assets (At Cost)



Capital Expenditures
Depreciation and Amortization



The effective income tax rates for the years 1976, 1975, and 1974 were 42.5 percent, 41.0 percent, and 43.5 percent, respectively. The rate in 1976 was higher than in 1975 principally because of the reduction of DISC benefits pursuant to the Tax Reform Act of 1976 and because of non-deductible foreign exchange translation losses.

Including Garlock's 1975 results on a pro forma basis for purposes of comparison, the company's 1975 net earnings would have been $57.5 million, on sales of $1,182 million.

The materials business accounted for 17 percent or $17.9 million of total pre-tax earnings in 1976, compared with 34 percent and $30.2 million in 1975 and 71 percent and $96.7 million in 1974. The decline in earnings in both 1976 and 1975 is attributed to the higher costs for purchased materials, energy, maintenance, wages, and fringe benefits, which were not fully recovered by price increases; and also to the lower level of operation in the materials business and the steel industry in general, that resulted from the slow pace of capital spending in certain markets. This two-year decline in earnings has been offset in part by operating efficiencies.

The industrial and power equipment business had 1976 pre-tax earnings of $26.0 million compared to $36.7 million in 1975. A lower demand for Trent welded stainless steel pipe and tubing was the main factor in the 1976 earnings decline. Increased sales volume at the Fairbanks Weighing and Crucible Magnetics divisions helped to offset this earnings decline. The 1975 profit increase was the result of increased sales volume for the products of the Trent Tube, Fairbanks Morse Engine, and Latin American operations as well as generally improved operating efficiencies and inventory gains.

In 1976, pre-tax earnings of the fluid control systems business totaled $29.5 million, an increase of $13.4 million or 83 percent over 1975. Fluid control systems accounted for 27 percent of 1976 total pre-tax earnings compared to 18 percent in 1975. The increase in profits reflects the continued improved performance of all divisions within this line of business. The Holley Carburetor Division benefited from improved automobile and truck sales and a strong demand in the automotive aftermarket. The Chandler Evans Control Systems Division was favorably affected by increased production and shipments of the MFP-330 fuel pump, a component in the F100 engines being built by the Pratt & Whitney Aircraft Division of United Technologies Corporation for use in the F-15 and F-16 fighter planes. The increase in 1975 profits over 1974 was due to effective cost controls, favorable pricing action, and improved product mix.

The industrial seals and components business includes the operations of Garlock Inc. The Garlock divisions manufacture and sell gaskets, packings, and other devices to prevent leakage and seal out contaminants.

Sales and Earnings before Income Taxes by Lines of Business
(In Millions of Dollars)

	1976		1975		1974		1973		1972	
	Sales	Pre-Tax Earnings	Sales	Pre-Tax Earnings	Sales	Pre-Tax Earnings	Sales	Pre-Tax Earnings	Sales	Pre-Tax Earnings
Materials	$ 475	$ 17.9	$ 454	$30.2	$ 585	$ 96.7	$404	$36.7	$309	$26.6
Industrial and Power Equipment	340	26.0	344	36.7	352	27.2	281	2.7	233	(7.6)
Fluid Control Systems	212	29.5	187	16.1	191	6.0	167	7.7	138	6.0
Industrial Seals and Components	181	18.9	—	—	—	—	—	—	—	—
Firearms and Sporting Equipment	92	14.9	71	5.4	57	6.9	36	(1.4)	51	1.0
Intergroup Sales Elimination	(33)	—	(33)	—	(41)	—	(26)	—	(24)	—
	$1,267	$107.2	$1,023	$88.4	$1,144	$136.8	$862	$45.7	$707	$26.0

Profits of the firearms and sporting equipment business were $14.9 million in 1976 compared to $5.4 million in 1975. This improvement is primarily attributable to an increase in export military sales of the M16 rifle to friendly governments with the approval of the U.S. Departments of State and Defense. The decline in 1975 pre-tax earnings from the 1974 level was due to increased costs not recoverable in price increases.

Sales by Class of Products
The following table sets forth information with respect to each class of similar products which accounted for at least 10 percent of the company's sales during either of the last two fiscal years:

	Percentage of Sales by Class of Products				
	1976	1975	1974	1973	1972
Stainless Steel	17.0	18.3	24.3	20.4	18.5
Specialty Carbon and Low Alloy Steels	15.4	20.1	19.1	18.8	18.0
Industrial Seals and Components	14.3	—	—	—	—
Carburetors and Components	9.7	10.7	11.6	12.9	12.3
Fabricated Metal Products	9.1	13.0	11.4	10.1	9.6

Financial Position
Working capital at December 31, 1976 remained strong at $358.5 million, an increase of $48.8 million from the end of 1975.

Cash and marketable securities were $70.5 million at December 31, 1976, an increase of $36.0 million over the prior-year amount. The company improved its liquidity during 1976, and its financial position at December 31, 1976 reflected the continuing strengthening of its balance sheet.

In April, 1976, the company made a private placement with institutional investors of $115 million of senior promissory notes bearing 9¾ percent interest, due April, 1996. An initial $55 million of the proceeds was received in April and $20 million in December, 1976. The $55 million was applied to the prepayment of bank loans due in 1979, while the $20 million is being used for general corporate purposes. The remainder of the proceeds will be delivered to the company late in 1977 and will be used for general corporate purposes.

Capital Expenditures
Expenditures during 1976 for new plant and equipment amounted to $43 million. Included is the completion of an integrated facility in the Pittsburgh area used for making high-speed tool steel, superalloy parts, and titanium shapes. Work continued on the computer-controlled argon-oxygen decarburization system at the company's Crucible Specialty Metals Division in Syracuse, New York where an extensive electrical modernization is also in progress to provide for future expansion and new processes. An expansion that will increase the ceramic magnet product-line capabilities by 40 percent is under way at our Crucible Magnetics Division in Elizabethtown, Kentucky. In order to take advantage of the growing market in Europe for large-diameter pipe and tubing, our European manufacturing capabilities are being increased to enable production of sizes up to 36 inches in outside diameter. The industrial seals and components business continues to expand its growing U.S. and international operations.

The company continues its policy of cost reduction, modernization, pollution control, and selective expansion. It is expected that capital expenditures for 1977 will be in excess of depreciation provisions.

Dividends

Quarterly dividends on the company's preferred stock were paid during 1976 and 1975 at the respective annual amount stated in the titles of such preferred stocks.

Quarterly cash dividends on the common stock were paid at the rate of 50¢ per share during the first two quarters and 62½¢ per share in the last two quarters of 1976. The increase to the annual rate of $2.50 per share in 1976 represents the fourth increase since February, 1973. In 1975, cash dividends on the common stock were paid at the rate of 50¢ per share during each quarter.

Market Price of Colt Industries Stock

The company's common stock; the $1.60 cumulative preferred stock, convertible Series A; and the $4.25 cumulative preferred stock, convertible Series D, are listed on the New York, Midwest, and Pacific Stock Exchanges. In addition, the common stock is also listed on the London Stock Exchange. The following table sets forth the reported high and low sales prices of the above-mentioned stock on the New York Stock Exchange for each quarter during 1976 and 1975:

	1976		1975	
Common Stock	High	Low	High	Low
First Quarter	48⅛	28½	30¾	23¼
Second Quarter	56⅛	39	35⅞	27⅝
Third Quarter	54⅞	44¾	33½	27½
Fourth Quarter	54¾	44¾	29½	24¾
$1.60 Cumulative Preferred Stock, Convertible Series A				
First Quarter	25⅞	18⅛	20½	16¼
Second Quarter	29¾	23⅜	21	19¼
Third Quarter	29¼	24¾	20⅜	18⅛
Fourth Quarter	29	23¾	18⅞	17½
$4.25 Cumulative Preferred Stock, Convertible Series D				
First Quarter	67	47½	50	41½
Second Quarter	79¾	59	54⅞	48
Third Quarter	76½	63	51	46
Fourth Quarter	75½	63	48	45¼

To the best of the company's knowledge, there is no established trading market for the $4.50 cumulative preferred stock, convertible Series B; the $4.25 cumulative preferred stock, convertible Series C; and the $2.75 cumulative preferred stock, Series E.

Shareholder Information

At the end of 1976, there were 25,692 holders of the company's common stock and 10,348 holders of the five classes of preferred stock. At the end of 1975, there were 28,750 holders of common and 11,674 holders of preferred.

Including 116,350 shares held in treasury during both years, there were 6,813,998 shares of common stock outstanding on December 31, 1976, compared with 6,693,763 at year-end 1975. Stock options exercised and conversion of preferred stock accounted for the 120,235 increase.

Annual Report to the Securities and Exchange Commission on Form 10-K

The annual report on Form 10-K, without exhibits, will be made available free of charge to interested stockholders upon written request to the Corporate Secretary, Colt Industries Inc, 430 Park Avenue, New York, New York 10022.

Consolidated Statement of Earnings

Colt Industries Inc and Subsidiaries

For the five years ended December 31, 1976

		(In thousands, except per share data)				
		1976	1975	1974	1973	1972
Revenue	Net sales	$1,266,511	$1,022,759	$1,143,508	$862,103	$707,299
Costs and Expenses	Cost of sales	1,014,027	842,510	911,027	733,739	602,086
	Selling and administrative	129,208	83,206	86,771	71,179	68,855
	Interest expense	21,213	17,458	19,425	16,842	12,835
	Interest income	(5,115)	(8,772)	(10,534)	(5,356)	(2,495)
	Total costs and expenses	1,159,333	934,402	1,006,689	816,404	681,281
Earnings	Earnings before income taxes	107,178	88,357	136,819	45,699	26,018
	Provision for income taxes (Note 3)	45,550	36,230	59,516	18,965	9,750
	Net earnings	61,628	52,127	77,303	26,734	16,268
	Dividends on preferred stock	4,372	4,400	4,403	4,406	4,430
	Net earnings applicable to common stock	$ 57,256	$ 47,727	$ 72,900	$ 22,328	$ 11,838
Earnings Per Share Data	Earnings per common share including common equivalent share (Notes 1 and 9)	$8.30	$7.07	$10.95	$ 3.41	$1.81
	Earnings per common share assuming full dilution (Notes 1 and 9)	$7.37	$6.34	$ 9.52	$ 3.32	$1.80
	Average number of shares (Note 1)—					
	Common and common equivalent basis	6,899	6,751	6,657	6,541	6,535
	Fully diluted basis	8,343	8,191	8,101	7,991	6,643
	Cash dividends per common share	$2.25	$2.00	$ 1.25	$.77½	$ .60

The accompanying notes to financial statements are an integral part of this statement.

Consolidated Balance Sheet

December 31

Assets		(In thousands) 1976	1975
Current Assets	Cash, including certificates of deposit of $17,911 and $13,498	$ 23,885	$ 21,566
	Marketable securities, at cost (approximates market)	46,597	12,914
	Accounts and notes receivable—		
	Trade	164,177	148,250
	Other	5,250	4,680
		169,427	152,930
	Less allowance for doubtful accounts	4,275	3,896
		165,152	149,034
	Inventories (Notes 1 and 13)—		
	Finished goods	85,823	69,401
	Work in process and finished parts	155,799	141,180
	Raw materials and supplies	87,877	99,962
		329,499	310,543
	Less allowance for slow-moving and obsolete items	23,001	18,884
		306,498	291,659
	Deferred income taxes (Note 3)	12,530	10,283
	Other current assets	9,509	11,565
	Total current assets	564,171	497,021
Property, Plant, and Equipment, at Cost (Notes 1, 4, and 13)	Land and improvements	22,603	22,123
	Buildings and equipment	116,395	113,525
	Machinery and equipment	528,602	508,575
	Leasehold improvements	5,549	4,851
	Construction in progress	22,724	12,477
		695,873	661,551
	Less accumulated depreciation and amortization	370,652	346,619
		325,221	314,932
	Funds held by custodian for pollution equipment	4,838	7,779
		330,059	322,711
Other Assets (Note 1)		47,072	46,542
		$941,302	$866,274

Liabilities and Shareholders' Equity		(In thousands of dollars, except par values) 1976	1975
Current Liabilities	Notes payable to banks (Note 4)	$ 8,284	$ 8,167
	Current maturities of long-term debt (Note 4)	12,880	10,519
	Accounts payable	75,165	74,673
	Accrued expenses—		
	Salaries, wages, and employee benefits	45,436	42,722
	Taxes	39,745	27,636
	Interest	3,304	2,660
	Other	20,866	20,988
		109,351	94,006
	Total current liabilities	205,680	187,365
Noncurrent Liabilities	Long-term debt (Note 4)	263,422	250,775
	Reserves—		
	Employee benefits	11,382	9,940
	Losses on long-term leases	3,982	4,553
	Plant consolidation, etc.	2,234	2,270
		17,598	16,763
	Deferred income taxes (Note 3)	32,233	33,328
	Minority interest in subsidiaries	2,777	2,956
	Commitments and contingencies (Note 12)		
Shareholders' Equity (Notes 4, 5 and 7)	Preferred stock— $1 par value, 2,916,245 and 2,941,962 shares authorized, 1,260,750 and 1,286,467 shares outstanding (involuntary liquidation value at December 31, 1976—$102,102)	1,261	1,286
	Common stock— $1 par value, 15,000,000 shares authorized, 6,813,998 and 6,693,763 shares issued	6,814	6,694
	Capital in excess of par value	149,485	147,331
	Retained earnings	268,576	226,320
		426,136	381,631
	Less cost of 116,350 shares of common stock in treasury	6,544	6,544
		419,592	375,087
		$941,302	$866,274

The accompanying notes to financial statements are an integral part of this statement.

Consolidated Statement of Retained Earnings

Colt Industries Inc and Subsidiaries

For the five years ended December 31, 1976

		(In thousands)				
		1976	1975	1974	1973	1972
Retained Earnings	Balance, beginning of period	$226,320	$191,714	$126,958	$109,669	$101,709
	Net earnings for the period	61,628	52,127	77,303	26,734	16,268
	Dividends—					
	Preferred stock	(4,372)	(4,400)	(4,403)	(4,406)	(4,430)
	Common stock	(15,000)	(13,121)	(8,144)	(5,039)	(3,878)
	Balance, end of period	$268,576	$226,320	$191,714	$126,958	$109,669

Consolidated Statement of Capital in Excess of Par Value

For the five years ended December 31, 1976

		(In thousands)				
		1976	1975	1974	1973	1972
Capital in Excess of Par Value	Balance, beginning of period	$147,331	$146,627	$146,480	$146,329	$146,235
	Conversion and retirements of preferred stock and exercise of options	2,154	704	147	151	94
	Balance, end of period	$149,485	$147,331	$146,627	$146,480	$146,329

The accompanying notes to financial statements are an integral part of these statements.

Consolidated Statement of Changes in Financial Position

Colt Industries Inc and Subsidiaries

For the five years ended December 31, 1976

		(In thousands)				
		1976	1975	1974	1973	1972
Source of Funds	Net earnings	$ 61,628	$ 52,127	$ 77,303	$ 26,734	$ 16,268
	Items not requiring use of working capital—					
	Depreciation and amortization	33,817	27,678	26,501	25,545	19,695
	Deferred income taxes	3,200	2,400	(1,000)	2,000	7,000
	Working capital provided from operations	98,645	82,205	102,804	54,279	42,963
	Long-term debt	84,657	2,208	19,198	11,148	122,306
		183,302	84,413	122,002	65,427	165,269
Application of Funds	Acquisition of Garlock Inc (excluding working capital of $48,656):					
	Property, plant, and equipment	—	65,842	—	—	—
	Long-term debt	—	(30,552)	—	—	—
	Other net assets	—	3,454	—	—	—
	Increase in net long-term assets	—	38,744	—	—	—
	Additions to properties	43,303	35,748	58,292	34,763	29,249
	Decrease in long-term debt	72,010	10,623	10,707	8,497	56,508
	Dividends paid	19,372	17,521	12,547	9,445	8,308
	Other—net	(218)	(2,766)	(2,069)	3,579	2,357
		134,467	99,870	79,477	56,284	96,422
Working Capital	Increase (decrease) in working capital	48,835	(15,457)	42,525	9,143	68,847
	At beginning of year	309,656	325,113	282,588	273,445	204,598
	At end of year	$358,491	$309,656	$325,113	$282,588	$273,445

		Increase (decrease) in working capital				
		1976	1975	1974	1973	1972
Changes in Components of Working Capital	Cash, including certificates of deposit	$ 2,319	$ (1,700)	$ (1,141)	$ (22,647)	$ 29,278
	Marketable securities	33,683	(28,054)	(6,402)	32,407	(2,476)
	Accounts and notes receivable	16,118	41	27,563	12,236	18,953
	Inventories	14,839	23,691	50,760	20,535	22,292
	Deferred income taxes	2,247	633	3,650	—	6,000
	Other current assets	(2,056)	5,313	1,076	468	(428)
	Notes payable to banks	(117)	(5,885)	(455)	(626)	2,471
	Current maturities of long-term debt	(2,361)	(1,725)	(1,152)	(3,424)	11,135
	Accounts payable	(492)	4,703	(21,005)	(5,368)	(15,561)
	Accrued expenses	(15,345)	(12,474)	(10,369)	(24,438)	(2,817)
		$ 48,835	$ (15,457)	$ 42,525	$ 9,143	$ 68,847

The accompanying notes to financial statements are an integral part of this statement.

1. Summary of Accounting Policies

Principles of Consolidation—Investments in which the company's ownership of common voting stock is over 50 percent are consolidated in the financial statements. Corporations in which the company has stock ownership of at least 20 percent but not over 50 percent are accounted for on the equity basis. Intercompany transactions are eliminated.

Foreign Currency Translation—The accounts of foreign subsidiaries are translated into U.S. dollars as follows: (a) inventories, fixed assets, investments, intangibles, deferred charges and credits and shareholders' equity at historical rates; (b) all other assets and liabilities at year-end rates; (c) income and expenses at monthly weighted average rates, except that depreciation and amortization are translated at historical rates in effect at the time the related assets were acquired. Gains and losses from exchange rate fluctuations are reflected in earnings currently. During 1976, the company incurred a $2,600,000 loss, net of gains, as a result of exchange rate fluctuations principally due to the devaluation of the Mexican peso, including the effect of translating inventories as sold at the new exchange rates. Gains and losses from exchange rate fluctuations in prior years, not significant in amount, were reflected in net earnings.

Inventories—Inventories are priced at the lower of cost or market, less allowance required to reduce slow-moving and obsolete items to realizable values. Cost elements included in inventory are material, labor, and factory overhead. Cost on approximately 51 percent of the domestic inventory is determined on the last-in, first-out basis and on the remainder of the inventory is generally determined on the first-in, first-out basis. The excess of current cost over last-in, first-out cost at December 31, 1976 and 1975 was approximately $70,000,000 and $57,000,000, respectively.

Beginning and ending inventories used in the determination of cost of goods sold were as follows:

December 31, 1976	$306,498,000
December 31, 1975	291,659,000
December 31, 1974	267,968,000
December 31, 1973	217,208,000
December 31, 1972	196,673,000
December 31, 1971	174,381,000

Property and Depreciation—Depreciation and amortization of plant and equipment are provided for by the company and its subsidiaries, generally using the straight-line method, based on estimated useful lives of the assets. For federal income tax purposes, most assets are depreciated using allowable accelerated methods.

Ranges of annual depreciation rates used by the company and its subsidiaries were as follows:

Land improvements	2-10%
Buildings and equipment	2-10%
Machinery and equipment	4-33⅓%
Leasehold improvements	Generally life of lease

Repair and maintenance costs are charged against earnings, while renewals and betterments are capitalized by additions to the related asset accounts. The company and its subsidiaries generally record retirements by removing the cost and accumulated depreciation from the asset and reserve accounts, reflecting any resulting gain or loss in earnings.

Start-up Costs—Start-up costs related to new operations and major facilities are expensed as incurred.

Revenue Recognition—Revenue on the majority of the company's products and services is recorded at the time deliveries or acceptances are made and the company has the contractual right to bill.

Intangibles—Excess costs arising from acquisitions prior to October 31, 1970 are not amortized or written off unless there is a diminution in value of the acquired company. Excess costs arising from acquisitions after such date are amortized on the straight-line method over a 40-year period.

Earnings Per Share—Earnings per common share, including common equivalent share, are computed by dividing net earnings less dividends on preferred stock by the weighted average number of shares of common stock and common stock equivalents outstanding during each period. Common stock equivalents are shares issuable on the exercise of stock options when dilutive, net of shares assumed to have been purchased with the proceeds.

Earnings per share, assuming full dilution, are computed as above with additional assumptions that all of the dilutive convertible securities were converted and related dividends were eliminated.

2. Acquisition of Garlock Inc

During December, 1975, 92 percent of the voting common stock of Garlock Inc was acquired in a cash tender at $35 per common share. The transaction has been accounted for as a purchase and accordingly the assets and liabilities of Garlock Inc as of December 31, 1975 were included in the accompanying consolidated balance sheet as of that date. The results of operations of Garlock Inc were incorporated in the consolidated operating results of Colt Industries Inc, beginning January 1, 1976. Garlock is primarily a manufacturer of gaskets, seals, and other devices to control or prevent the leakage of fluids. The purchase price, $87,400,000, exceeded the fair value of net assets acquired by approximately $15,408,000. This excess is being amortized on the straight-line method over a 40-year period.

On January 28, 1976, Garlock Inc was merged into its parent company, a wholly owned subsidiary of Colt Industries Inc. Under terms of the merger, Garlock shareholders receive a cash payment of $35 for each outstanding share of Garlock common stock held at the time of the merger. Garlock shareholders have been informed of the merger and of the procedure for surrendering their stock certificates and receiving the $35 per share cash payment.

The consolidated results of operations for 1975 on a pro forma basis as though Garlock Inc had been acquired at the beginning of fiscal 1975 are as follows:

Net sales	$1,181,847,000
Net earnings	57,500,000
Earnings per common share	7.84

3. Income Taxes

The provision for income taxes is made up of the following:

	(In thousands)				
	1976	1975	1974	1973	1972
Current	$42,350	$33,830	$60,516	$16,965	$2,750
Deferred	3,200	2,400	(1,000)	2,000	7,000
Total	$45,550	$36,230	$59,516	$18,965	$9,750

Current includes foreign income taxes of $5,430,000, $2,918,000, $1,957,000, $904,000, and $320,000 for 1976, 1975, 1974, 1973, and 1972, respectively. Deferred includes foreign income taxes of $148,000, $185,000, $207,000, and $18,000 for 1976, 1975, 1974, and 1973, respectively.

Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial reporting purposes. Significant items of the deferred tax provision for 1976, 1975, 1974, and 1973 were as follows:

	(In thousands)			
	1976	1975	1974	1973
Excess of tax over book depreciation	$3,671	$2,539	$ 2,346	$2,530
Other	(471)	(139)	(3,346)	(530)
Total	$3,200	$2,400	$(1,000)	$2,000

The 1976 tax provision of $45,550,000 resulting in an effective tax rate of 42.5 percent and the comparable tax provisions and related effective rates for 1975, 1974, and 1973 were determined as follows:

	(In thousands)			
	1976	1975	1974	1973
Tax on income before taxes at the statutory U.S. federal income tax rate	$51,445	$42,411	$65,673	$21,936
Less reductions in taxes resulting from:				
Investment tax credit	(2,900)	(2,500)	(2,500)	(1,500)
Benefits attributable to DISC, capital gains income, etc.	(2,995)	(3,681)	(3,657)	(1,471)
	$45,550	$36,230	$59,516	$18,965
Effective tax rate	42.5%	41.0%	43.5%	41.5%

4. Long-term Debt

	1976	1975
Colt Industries Inc (a)— 9¾% senior promissory notes due 1982-1996 (b) and (c)	$ 75,000,000	$ —
8½% senior promissory notes due 1978-1992	50,000,000	50,000,000
Bank notes due 1979, repaid in 1976 (c)	—	55,000,000
6% notes due 1977-1980	11,000,000	14,000,000
6% pollution control revenue bond due 1978-1986	9,000,000	9,000,000
Capitalized leases 4.2%-8¾% due 1977-1999	19,906,000	17,892,000
	164,906,000	145,892,000
Subsidiaries—(*indicates average interest rates for 1976) First mortgage sinking fund bonds 5.3%-6⅞% due serially 1977-1992 (d)	62,688,000	69,185,000
8⅞% notes payable to insurance company in installments to 1990	25,500,000	26,000,000
Notes due 1977-1990—7.4%*	14,086,000	10,395,000
Other long-term debt due 1977-1992—6.8%*	9,122,000	9,822,000
	276,302,000	261,294,000
Less—Amounts due within one year	12,880,000	10,519,000
	$263,422,000	$250,775,000

a) The company's loan agreements provide that, for the company and all restricted subsidiaries, current assets shall not be less than 175 percent of current liabilities and that working capital shall not be less than 100 percent of funded debt. In addition, dividends declared subsequent to December 31, 1975, are limited to the sum of $50,000,000, plus net earnings since December 31, 1975. At December 31, 1976, $81,387,000 of consolidated retained earnings was available for dividends. The loan agreements also provide that the company cannot incur any additional funded debt, unless at the time such funded debt is incurred and after giving effect thereto, net tangible assets would then exceed 200 percent of funded debt and 250 percent of senior funded debt.

b) The loan agreement provides for the issuance of an additional $40,000,000 of notes by December 30, 1977. There is a commitment fee on this amount, computed at the rate of ½ of 1 percent from April 15, 1976, to the date the $40,000,000 of notes are issued.

c) A portion of the proceeds from the 9¾ percent senior promissory notes issued in 1976 was applied to the payment of $55,000,000 of bank notes due 1979. The prepayment resulted in income of $1,400,000 after tax.

d) The mortgage bond indentures, which are secured by approximately $190,000,000 of assets, principally property, plant, and equipment, provide for restrictions on the disposition of property and the creation of additional indebtedness.

e) Minimum payments on long-term debt due within five years from December 31, 1976 are as follows:

1977	$12,880,000
1978	15,640,000
1979	17,031,000
1980	16,715,000
1981	14,809,000

f) At December 31, 1976, the company had unused lines of credit aggregating $44,000,000 for short-term bank borrowings. The company has understandings with the banks regarding compensating balances for these credit arrangements but the aggregate amount of such compensating balances was not material at December 31, 1976. During 1976, the average short-term borrowing outstanding was $8,354,000, with $10,328,000 being the maximum amount outstanding at any month-end. The weighted-average interest rate on short-term borrowing, principally related to foreign borrowing, was 7.9 percent during the year and 11.1 percent at year-end. The average interest rate during the year was calculated by weighting the short-term borrowing outstanding for each month.

5. Capital Stock

Changes in capital stock are shown below for 1974, 1975, and 1976:

	Preferred Shares $1 Par Value	Common Shares $1 Par Value	Treasury Stock Shares	Treasury Stock Cost
Balance at January 1, 1974	$1,288,390	$6,621,210	(116,350)	$(6,544,000)
Conversion of preferred stock and exercise of options	(1,144)	17,075	—	—
Balance at December 31, 1974	1,287,246	6,638,285	(116,350)	(6,544,000)
Conversion and retirements of preferred stock and exercise of options	(779)	55,478	—	—
Balance at December 31, 1975	1,286,467	6,693,763	(116,350)	(6,544,000)
Conversion and retirements of preferred stock and exercise of options	(25,717)	120,235	—	—
Balance at December 31, 1976	$1,260,750	$6,813,998	(116,350)	$(6,544,000)

The authorized preferred stock is issuable in series. Outstanding preferred stock has voting rights and is entitled to cumulative dividends. At December 31, 1976, the following series were outstanding:

	Annual Dividend Rate	Shares Outstanding	Involuntary Liquidation Value	Redemption Value Per Share
Series A	$1.60	353,476	$ 14,139,000	$ 41.00
Series B	4.50	13,105	1,311,000	102.00
Series C	4.25	76,628	7,663,000	102.50
Series D	4.25	756,099	75,610,000	103.00
Series E	2.75	61,442	3,379,000	55.00
		1,260,750	$102,102,000	

Dividends may not be paid on common stock if the shareholders' equity of the company would thereby be reduced below the aggregate involuntary liquidation preference applicable to outstanding preferred stock ($102,102,000), plus the amount of capital attributable to common stock ($6,698,000).

All series, except Series E, are convertible into common stock of the company: Series A at the rate of 2.666 shares of common stock for each five shares of preferred; Series B at the rate of 4.987 shares of common stock for each share of preferred; Series C at the rate of 1.462 shares of common stock for each share of preferred; and Series D at the rate of 1.390 shares of common stock for each share of preferred; subject to certain specified adjustments.

At December 31, 1976, shares of common stock were reserved for the following purposes:

Conversion of preferred stock	1,416,988
Issuance under stock options	497,322

6. Pension and Retirement Plans

The company and certain of its subsidiaries have in effect, for substantially all employees, pension and retirement plans under which funds are deposited with trustees. As of December 31, 1976, the actuarially computed vested benefits, using a 6 percent interest factor, were $282,242,000, exceeding the market values of fund assets by $121,026,000. It is estimated that the amount required to fund all vested benefits as of December 31, 1976, based on interest rates then in effect, would be $231,944,000, exceeding the market value of fund assets by $70,728,000.

Pension expense of $35,174,000, $28,247,000, $22,547,000, $15,398,000, and $12,047,000 was charged to earnings in 1976, 1975, 1974, 1973, and 1972, respectively. The amortization of prior service cost was increased in 1974 to 10 percent per year and had the effect of increasing the pension expense by $6,290,000.

7. Stock Option Plans

The company's stockholders approved the Colt Industries Stock Option Plan, as amended in 1968, to the extent of 350,000 common shares and in 1974 approved the Colt Industries 1974 Stock Option Plan, to the extent of 300,000 common shares. They provide for the granting of qualified and non-qualified options to officers and key employees at a price not less than 100 percent of the market price on the date of grant. Under the 1968 plan, options are no longer granted and lapsed options accrue to the 1974 plan. Under the 1974 plan, options may be granted to September 11, 1983. Qualified options granted subsequent to May 20, 1976 and not exercised by May 20, 1981, pursuant to the Tax Reform Act of 1976, will be treated as non-qualified options. Options granted are exercisable in cumulative annual installments of from 25 to 33⅓ percent, commencing one year from date of grant.

At December 31, 1976, options for 375,997 shares were outstanding (of which 342,997 were non-qualified, 26,000

were qualified and the balance of 7,000 shares were either qualified or non-qualified options at the discretion of the optionee) at prices ranging from $13.69 to $52.00 per share and aggregating $6,870,000. Shares available for grant at December 31, 1976 and 1975 were 119,974 and 168,154 (21,201 and 17,301 of which are shares relating to lapsed options under the plan adopted in 1968), respectively.

No charges have been made to earnings for any year with respect to stock options.

A summary of information with respect to stock options which were granted, which became exercisable, and which were exercised during the three years ended December 31, 1976, is presented below:

Granted		Option Price		Market Price	
	Number of Shares	Per Share	Total (In thousands)	Per Share	Total (In thousands)
1974	78,350	$15.50-$26.50	$1,461	$15.50-$26.50	$1,461
1975	2,000	$33.25	67	$33.25	67
1976	53,050	$35.94-$52.00	1,962	$35.94-$52.00	1,962
	133,400		$3,490		$3,490

Exercisable (a)		Option Price		Market Price	
	Number of Shares	Per Share	Total (In thousands)	Per Share	Total (In thousands)
1974	109,813	$13.69-$23.63	$1,672	$17.63-$27.75	$2,493
1975	80,371	$13.69-$26.50	1,291	$25.25-$33.38	2,233
1976	76,556	$14.19-$33.25	1,238	$31.63-$54.75	3,556
	266,740		$4,201		$8,282

Exercised (a)		Option Price		Market Price	
	Number of Shares	Per Share	Total (In thousands)	Per Share	Total (In thousands)
1974	11,387	$13.94-$22.06	$ 164	$19.38-$29.25	$ 281
1975	54,938	$13.69-$21.25	777	$24.38-$35.50	1,695
1976	64,316	$13.69-$33.25	1,045	$32.50-$55.88	2,894
	130,641		$1,986		$4,870

a) The market price per share represents the highest sales price on various dates at which options became exercisable or were exercised as applicable.

In connection with the acquisition of Garlock Inc, the company reserved 39,212 shares of its common stock for the exercise of options granted by the company in substitution for previously outstanding Garlock options at an average price of $14.57 per common share of the company. During 1976, options for 37,861 shares were exercised at an average price of $43.32 per common share of the company. At December 31, 1976, options for 1,351 shares were outstanding.

8. Incentive Plan

The Colt Industries Incentive Plan, approved by shareholders at the 1965 annual meeting, provides that if consolidated net earnings for any year, after deducting therefrom the amount of all dividends accruing during such year in respect of preferred stocks of Colt, exceeds an amount equal to 6 percent of common shareholders' average equity for the year, then there shall become available for incentive awards for that year an amount equal to 6 percent of consolidated earnings before income taxes. The persons to receive awards and the amount thereof are determined annually by a committee consisting of three directors, none of whom is eligible to receive an incentive award. The company made cash awards of $1,731,000, $1,505,000, $1,719,000, $1,125,000, and $870,000 for 1976, 1975, 1974, 1973, and 1972, respectively.

9. Quarterly Sales and Earnings (Unaudited)

For the year ended December 31, 1976 (in thousands of dollars, except per share data):

	Quarter			
	1st	2nd	3rd	4th
Net sales	$314,218	$332,950	$308,020	$311,323
Gross profit	59,945	68,951	60,064	63,524
Net earnings	14,380	19,659	13,031	14,558
Earnings per common share—				
Including common equivalent share	1.94	2.69	1.73	1.94
Assuming full dilution	1.73	2.35	1.55	1.74

The company's second-quarter earnings include income of $1,400,000 after tax resulting from prepayment of $55,000,000 of bank notes from the proceeds of a private financing, arranged during the quarter, of 9¾ percent senior promissory notes. The company's third- and fourth-quarter earnings were reduced by 16 cents and 17 cents a common share, respectively, due to the devaluation of the Mexican peso, including the effect of translating inventories as sold at the new exchange rates.

10. Supplementary Earnings Information

	(In thousands)				
	1976	1975	1974	1973	1972
Maintenance	$61,234	$49,206	$49,252	$39,608	$31,923
Depreciation and amortization	33,817	27,678	26,501	25,545	19,695
Taxes, other than federal income taxes:					
Payroll	23,839	18,801	20,208	16,248	12,073
Property	5,877	5,147	4,723	4,913	5,024
State and local	10,132	8,550	13,411	5,336	4,144
	39,848	32,498	38,342	26,497	21,241
Rent	14,397	12,385	11,991	11,127	11,832
Research and development costs	15,217	13,319	13,668	13,389	13,380

11. Foreign Operations

The consolidated balance sheet and statement of earnings include the accounts of certain subsidiaries operating outside the United States. During 1976, the company's consolidated foreign subsidiaries had sales of $112,466,000 and net earnings of $4,115,000; with total assets of $100,320,000 at December 31, 1976.

12. Commitments and Contingencies

The company and certain of its subsidiaries had rental expense, after reduction for related rental income, in the amounts of $10,600,000, $8,794,000, $8,552,000, $7,947,000, and $8,649,000 which were charged to earnings in 1976, 1975, 1974, 1973, and 1972, respectively. The amounts of related rental income from subleases in 1976, 1975, 1974, 1973, and 1972 were $3,797,000, $3,591,000, $3,439,000, $3,180,000, and $3,183,000, respectively.

The company and certain of its subsidiaries have noncancelable leases expiring on various dates after December 31, 1977. Amounts payable under such commitments are as follows (in thousands):

	Rental Commitments Under All Noncancelable Leases*				
	Real Property	Machinery and Equipment	Total	Rental From Noncancelable Subleases	Noncapitalized Financing Leases
1977	$1,862	$1,134	$2,996	$4,054	$1,339
1978	1,785	995	2,780	3,865	1,313
1979	1,585	563	2,148	3,473	1,210
1980	1,648	393	2,041	3,073	1,011
1981	1,240	247	1,487	2,907	784
1982-1986	7,840	442	8,282	5,519	3,681
1987-1991	9,664	126	9,790	595	1,416
1992-1996	8,027	76	8,103	625	132
Remainder	6,815	—	6,815	1,065	317

*Includes commitments under noncapitalized financing leases, net of rentals to be received from noncancelable subleases.

At December 31, 1976 and 1975, the present value of the minimum lease commitments for all noncapitalized financing leases was $8,000,000 and $9,000,000, respectively. If all noncapitalized financing leases had been capitalized, related assets amortized on a straight-line basis, and interest costs accrued at applicable rates on the basis of outstanding lease liability, the impact on net earnings in 1976, 1975, and 1974 would be less than 3 percent of average net earnings for such years.

The company and certain of its subsidiaries are contingently liable as guarantors on certain leases and are defendants in various lawsuits. In the opinion of management, these contingent liabilities are not significant in relation to the financial position of the company and its subsidiaries.

13. Replacement Cost Data (Unaudited)

In compliance with rules of the Securities and Exchange Commission, management has estimated the replacement cost of certain inventories and productive capacity of the company and its consolidated subsidiaries as of December 31, 1976, together with cost of sales and depreciation on the basis of replacement cost for the year then ended.

The replacement cost information presented below does not reflect all of the effects of inflation and other economic factors on the company's current costs of operating the business. The SEC rule does not require consideration of these effects on assets and liabilities other than inventories and productive capacity. Further, the replacement cost information standing alone does not recognize the customary relationships between cost changes and changes in selling prices. The company has attempted over the years to adjust selling prices to maintain profit margins. Competitive conditions permitting, the company expects to modify its selling prices to recognize future cost changes. Accordingly, it is management's view that the limited replacement cost data presented herein cannot be used alone to compute the total effect of inflation on net earnings as reported.

Management also cautions that this information should not be interpreted to indicate that the company actually has present plans to replace such assets and that actual replacement would take place in the form and manner assumed in developing these estimates. The replacement cost information is based on the hypothetical assumption that the company would replace its entire inventory and productive capacity at the end of its fiscal year, whether or not such instant replacement were physically possible. In the normal course of business, the company will replace its productive capacity over an extended period of time. Decisions concerning replacement will be made in the light of economic, regulatory, and competitive conditions existing on the dates such determinations are made and could differ substantially from the assumptions on which the data included herein are based. If the company's productive capacity were to be replaced in the manner assumed in the calculation of replacement cost of existing productive capacity, many costs in addition to depreciation (e.g., direct labor costs, repairs and maintenance, utility, and other indirect costs) would be altered. Although these expected cost changes cannot be quantified with any precision, the current level of operating costs other than depreciation would be reduced as a result of the technological improvements assumed in the hypothetical replacement.

It must be recognized that this required replacement cost data is, by its nature, limited in scope, imprecise, and predicated upon certain assumptions and subjective judgments which may vary over time and from company to company.

Set forth below is an analysis of management's estimates of the replacement cost of certain of the inventories and productive capacity of the company and its subsidiaries at December 31, 1976, together with an estimate of the replacement cost of sales and depreciation for the year then ended. Comparable related historical amounts with respect to these same assets, as included in the accompanying consolidated balance sheet and statement of earnings, are also included for informational purposes.

	Replacement Cost (Unaudited)	Historical Cost (a)
	(in thousands)	
At December 31, 1976		
Inventories		
Finished goods	$ 104,039	$ 85,823
Work in process and finished parts	200,366	155,799
Raw materials and supplies	98,798	87,877
	403,203	329,499
Less allowance for slow-moving and obsolete items	23,001	23,001
	$ 380,202	$ 306,498
Property, Plant, and Equipment		
Land improvements	$ 21,692	$ 10,955
Buildings and equipment	308,375	116,395
Machinery and equipment	984,019	535,792
Leasehold improvements	8,740	5,549
	1,322,826	668,691
Less accumulated depreciation and amortization	908,717	370,652
	$ 414,109	$ 298,039
Year ended December 31, 1976		
Cost of sales	$1,026,511	$1,014,027
Depreciation		
Included in cost of sales	$ 40,129	$ 31,471
Included in other operating costs	3,020	2,346
	$ 43,149	$ 33,817

(a) For purposes of comparison with replacement cost, the historical cost data excludes land ($11,648,000) and construction in progress ($20,372,000). Machinery and equipment, at historical cost, includes capital expenditures of $7,190,000 for pollution equipment; of this amount, $2,352,000 is reported in the consolidated balance sheet as construction in progress and $4,838,000 as funds held by custodian for pollution equipment.

With respect to inventories, replacement cost has been estimated based on quantities on hand at the end of the year. The excess of replacement cost over historical cost, stated at LIFO included above, is $70,000,000. There is no significant effect on the components of inventory such as depreciation, direct labor costs, repairs and maintenance, utility, or other indirect costs as a result of the assumed replacement cost of productive capacity.

Replacement cost of sales was estimated through adjustment of historical cost of sales for the approximate time lag between incurring inventory costs and their subsequent conversion into sales revenue. The replacement cost of sales amount does not include any cost savings in direct labor, repairs and maintenance, utility, and other indirect costs which may result from the replacement of existing assets with assets of improved technology.

The estimated replacement cost of productive capacity was determined by adjusting historical cost by indices of reproduction cost relevant to the plant and equipment of the company. The result was modified by vendor quotations and engineering studies to reflect major technological improvements which management intends to incorporate into the productive capacity through normal capital expenditure programs and to reflect anticipated environmental expenditures.

Accumulated depreciation and depreciation expense, on a replacement-cost basis, are based on the expired economic lives used for historical cost purposes and are calculated using the straight-line method. Accumulated depreciation and depreciation expense on a replacement cost basis were computed by adjusting historical cost depreciation by the same reproduction cost indices used to develop the estimated replacement cost of productive capacity. The result was modified by the effect on depreciation of changes to productive capacity resulting from technological replacements and anticipated environmental expenditures. In certain instances, historical depreciation is calculated on an accelerated basis with the corresponding replacement depreciation calculated on a straight-line basis.

14. Proposed Merger

Reference is made to Page 5 for information on the proposed merger with Menasco Manufacturing Company.

Auditors' Report

To the Board of Directors and Shareholders of
Colt Industries Inc:

We have examined the consolidated balance sheet of Colt Industries Inc (a Pennsylvania corporation) and subsidiaries as of December 31, 1976 and 1975, and the related consolidated statements of earnings, retained earnings, capital in excess of par value and changes in financial position for the five years ended December 31, 1976. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Garlock Inc, as of December 31, 1975, which statements reflect total assets constituting 14% of the related consolidated totals. These statements were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiary, is based solely upon the report of the other auditors.

In our opinion, based upon our examination and the report of other auditors referred to above, the accompanying financial statements present fairly the financial position of Colt Industries Inc and subsidiaries as of December 31, 1976 and 1975, and the results of their operations and changes in their financial position for the five years ended December 31, 1976, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

New York, N. Y.,
February 8, 1977

Directory of Operations

Industrial and Power Equipment

Trent Tube Division
Church Street
East Troy, Wisconsin 53120
414/642-7321

Welded stainless steel, titanium, and other high-alloy tubing to 150-foot lengths for electric utility condensers and feed-water heaters/Nuclear piping and tubing/Liquefied natural gas (LNG) piping/26-1 special alloy tubing/Mill-length stainless and high-alloy pipe and tubing for processing, aerospace, nuclear, cryogenic, and instrumentation applications.

Crucible Spring Division
1 McCandless Avenue
Pittsburgh, Pennsylvania 15201
412/782-2444

Hot-wound heavy-duty coil springs for locomotives and freight cars, farm and heavy construction equipment, gun and missile shock absorption, pipe hangers.

Crucible Magnetics Division
Box 100
Elizabethtown, Kentucky 42701
502/769-1333

Cast Alnico, Ferrimag ceramic, and Crucore rare earth-cobalt permanent magnets for electrical equipment, electromechanical controls and actuators, electronic devices, meters and instruments, separators, motors, magnetos, and data processing equipment.

Central Moloney Transformer Division
2400 West Sixth Avenue
Pine Bluff, Arkansas 71601
501/534-5332

Pole, pad-mounted, underground, and station-type distribution transformers/ High-voltage circuit breakers/ Transformer components.

Pratt & Whitney Machine Tool Division
Charter Oak Boulevard
West Hartford,
Connecticut 06101
203/236-6221

Vertical and horizontal numerically controlled machining centers/ NC drilling and tapping machines/Automatic turret lathes/NC lathes and chuckers/Jig borers/Vertical and horizontal NC and tracer-controlled milling and duplicating machines/Numerically and tracer-controlled multiple-spindle profiling and contour milling machines/Pratt & Whitney particle metallurgy (PWM) cutting tools/Standard high-speed steel P & W cutting tools/Inch and metric gages/ Electronic measuring instruments/Sterling thread-rolling dies, taps, and gages/Haber cold-heading tools/Fastcut end mills/Cutter grinders.

Elox Division
Box 2227
Davidson,
North Carolina 28036
704/892-8011

Electrical discharge machining (EDM) and EDM grinding equipment and power supplies/Custom-designed and built EDM production systems/ Combination EDM and try-out machines for large dies and molds/Electron drills/ NC Traveling Wire EDM.

Fairbanks Weighing Division
St. Johnsbury, Vermont 05819
802/748-5111

Bench and portable floor scales/Warehouse scales/ Hopper and conveyor scales/ Portable and stationary truck scales/Static and in-motion railroad scales/Mechanical and electronic indicators/ Mechanical, fluid-logic, and electronic accessories for process applications.

Quincy Compressor Division
217 Maine Street
Quincy, Illinois 62301
217/222-7700

Reciprocating air- and water-cooled compressors for pneumatic tools and equipment in factories, processing plants, automotive servicing stations, environmental control systems, and other compressed air applications/Stationary and portable helical screw compressors for mining and construction/ Hydraulic power units/Hydraulic paving breakers, tampers, submersible pumps, and chain saws for the construction industry.

Fairbanks Morse Engine Division
701 Lawton Avenue
Beloit, Wisconsin 53511
608/364-4411

Diesel engine generator systems for standby, peaking, and continuous service/Diesel engines for industrial drives/ Marine diesel propulsion systems and generator systems/ Specialty machining for nuclear power plant components.

Fairbanks Morse Engine Accessories Operation
701 Lawton Avenue
Beloit, Wisconsin 53511
608/364-4411

Conventional and solid-state ignition systems/Rewind starters and clutches for industrial, commercial, and recreational markets.

Water & Waste Management Operation
701 Lawton Avenue
Beloit, Wisconsin 53511
608/364-4411

Envirovac vacuum sewage systems.

Materials

Crucible Alloy Division
Box 226
Midland, Pennsylvania 15059
412/643-1100

Standard and special alloy and carbon steel ingots, blooms, billets, and bars for automotive, marine, heavy construction equipment, and durable goods manufacturing/Vacuum arc remelted aerospace alloys and superalloys/Discs, colters, and other rolled agricultural shapes.

Crucible Stainless Steel Division
Box 226
Midland, Pennsylvania 15059
412/643-1100

Stainless steel sheet and strip for chemical and food processing, cargo carrying and mass transit, automotive, appliance, construction, and durable goods manufacturing/ Titanium and titanium alloy billets, plate, sheet, and strip for aerospace, chemical processing, and other industries.

Crucible Specialty Metals Division
Box 977
Syracuse, New York 13201
315/487-4111

Crucible Particle Metallurgy and conventional high speed steel bars and tool bits/ Plastic mold and die casting die steels/Tool steels/Stainless free-machining bars and rods/ High-temperature aerospace, nuclear, and chemical processing alloys/Valve steels/ Commercially pure and alloyed titanium bars, rods, and wire.

Fluid Control Systems

Holley Carburetor Division
11955 East Nine Mile Road
Warren, Michigan 48090
313/536-1900

Standard carburetors and ignition systems/Air injection pumps for emission control/ High-performance carburetors and kits/Standard and high-performance intake manifolds/ Fuel pumps, spark plugs, wiring, and ignition tune-up parts/Valve covers.

Chandler Evans Control Systems Division
Charter Oak Boulevard
West Hartford, Connecticut 06101
203/236-0651

Fuel pumps, fuel controls, valves, and other gas turbine engine control components for aircraft, commercial, and marine applications/Aircraft and missile flight controls, valves, and actuators.

Fairbanks Morse Pump Division
3601 Kansas Avenue
Kansas City, Kansas 66110
913/371-5000

Standard and custom-engineered centrifugal, turbine, and axial-flow pumps for pollution control, fire protection, municipal water supply, irrigation, drainage/Domestic water systems/Sump, self-priming lawn sprinkler, and peripheral high-pressure pumps for farm, home, and commercial water systems.

Firearms and Sporting Equipment

Firearms Division
150 Huyshope Avenue
Hartford, Connecticut 06102
203/278-8550

Hunting rifles/Sporting, target, and commemorative arms and accessories/Police, security, and military handguns/M16 military rifles/Grenade launchers.

Industrial Seals and Components

Garlock Mechanical Packing Division
Division Street
Palmyra, New York 14522
315/597-4811

Molded and extruded rubber and urethane products/ Seals for fluid power applications/ Gasketing/Rubber expansion joints/Flexible couplings and flue duct connectors/Braided and other compression packings.

Garlock Compressor Components Division
P.O. Box A
Newtown, Pennsylvania 18940
215/968-5959

Compressor and industrial engine components.

Garlock Truck Products Division
P.O. Box 1989
Industrial Boulevard
Longview, Texas
214/758-9981

Wheel lubrication systems/ Heavy-duty truck exhaust systems/Leaf springs for heavy-duty trucks/Truck anti-skid devices.

Garlock Oil Seal Products Division
4307 York Road
Gastonia, North Carolina
704/864-8352

Oil seals for automotive and other mechanical equipment/ Spiral-wound gaskets/Automotive transmission kits/ Molded rubber products.

Garlock Special Products Division
Suite 1250, Midtown Tower
Rochester, New York 14604
716/232-1400

Plastic-based bearings and bearings materials/TFE-coated butterfly valves and components/Hydraulic and pneumatic cylinders/Lubrication powders/Mechanical seals for pumps and pipelines.

International

Colt Industries (Canada) Ltd.
Case Postale 520
Sorel, Quebec, Canada
514/743-7931

Crucible Division
Case Postale 520
Sorel, Quebec, Canada

Tool and die steels/Custom forgings/Stainless steel coil, sheet, and strip.

Fairbanks Morse Division
9125 Cote de Liesse Road
Dorval 760, Quebec, Canada

Marine diesel engines and parts.

Fairbanks Weighing Division
1955 Leslie Street
Don Mills, Toronto, Ontario
Canada

Scales and weighing systems and service.

Crusteel Limited
Rutland Way
Sheffield S3 8DG
Yorkshire, England

Specialty steel distributors.

Trent Tube, B.V.
Vossenbeemd 111
Helmond, The Netherlands

Welded stainless steel tubing and pipe.

Manufacturera Fairbanks Morse, S.A.
Avenida Cuauhtemoc No. 1338
Apartado Postal M-10757
Mexico 13, D.F.

Pumps/Motors/Generators/ Scales/Transformers.

Industrias Fairbanks Morse de Centro America, S.A.
Boulevard Liberacion 4-3,
Zona 9
Ciudad de Guatemala
Guatemala

Pumps and weighing equipment.

Garlock Technical Rubber Products Division
Alton Lane, Ross-on-Wye
Herefordshire, England
Ross-on-Wye 3551

High-technology specialty molded rubber products/Metal pressings and press tools.

Garlock Packing International Division
Hofackerstrasse 13 CH-8032
Zurich, Switzerland
01-55-22-75

Textiles and packing materials in Spain/Molded TFE products and butterfly valves in The Netherlands/Industrial packing and gasketing in Australia and the Philippines/Industrial distribution in The Netherlands, Switzerland, Spain, Germany, Italy, Great Britain, Scotland, and the Philippines/ Industrial marketing in Europe, eastern Europe, mideast Africa, Far East, and Latin America.

Garlock de Mexico, S.A.
Apartado 15-103
Louis Mulas Sucs, S.A.
Apartado 15-111
Calle Poniente 116, No. 571
Mexico 15, D.F.

Industrial packing and gasketing/ Compressor components/ TFE specialty products and molded rubber products.

Colt Industries Credit Corporation
430 Park Avenue
New York, New York 10022
212/980-3500

Financing and leasing of income-producing equipment for customers of Colt Industries' divisions, as well as financing and leasing of other manufacturers' machinery for customers in the machine tool, construction, plastics, and other industries.

Directors and Officers

Directors

William D. Ford
Senior Vice President
Secretary and
General Counsel
Colt Industries Inc
New York, New York

George R. Harrison
Dean Emeritus
Massachusetts Institute of Technology, School of Science
Concord, Massachusetts

George C. Lessner
Attorney
Manchester, Connecticut

David I. Margolis
President
Colt Industries Inc
New York, New York

A. J. McMullen
Chairman of the Executive Committee
Garlock Inc
Rochester, New York

William H. Rea
Chairman
Tyrone Hydraulics Inc.
(manufacturer of hydraulic pumps and motors)
Pittsburgh, Pennsylvania

Matthew B. Ridgway
General, U.S. Army (Ret.)
Pittsburgh, Pennsylvania

William S. Schwab
Partner
Rosenberg & Schwab, attorneys
Chicago, Illinois

George A. Strichman
Chairman of the Board and
Chief Executive Officer
Colt Industries Inc
New York, New York

Max E. Wildman
Partner
Wildman, Harrold, Allen & Dixon, attorneys
Chicago, Illinois

Director Emeritus
Alva W. Phelps
Retired
Kenilworth, Illinois

Officers

George A. Strichman
Chairman of the Board and
Chief Executive Officer

David I. Margolis
President

William D. Ford
Senior Vice President
Secretary and
General Counsel

Andrew C. Hilton
Senior Vice President
Administration

Kenneth A. Wulff
Senior Vice President
Finance and Treasurer

Ben H. Cook
Group Vice President

Eugene A. March
Group Vice President

Guy C. Shafer
Group Vice President

Philip Wallach
Group Vice President

Phil Berkowitz
Vice President
Personnel

Blair Bolles
Vice President
Government Relations

John F. Campbell
Vice President
Public Relations

Salvatore J. Cozzolino
Vice President
and Controller

Julius Levinson
Vice President
Taxes

Transfer Agents
Manufacturers Hanover Trust Company (New York)

The First National Bank of Chicago

Bank of America National Trust and Savings Association (San Francisco)

Registrars
Mellon Bank, N.A.
(New York)

Harris Trust & Savings Bank (Chicago)

United California Bank
(San Francisco)

Auditors
Arthur Andersen & Co.

Executive Offices
430 Park Avenue
New York, N.Y. 10022

Washington Office
1801 K Street, N.W.
Washington, D.C. 20006

Colt Industries People

Pictured in this annual report are just a few of the 26,800 people of Colt Industries. The pages on which they appear and their jobs and divisions are listed below.

In striving to develop and maintain an effective work force, the company provides employment, training, and advancement opportunities without regard for race, color, religion, sex, age, or national origin. The company's affirmative action program also covers the employment of minorities, women, handicapped persons, and veterans of the Vietnam conflict.

Page 7

J. R. Mikesell
Director—Materials
Quincy Compressor
Division

Stephen Knop
Layout Man
Fairbanks Weighing
Division

Dixie Broome
Winding Machine
Operator
Elox Division

Farrel McGuffin
Plant Foreman
Crucible Magnetics
Division

Page 8

Jean Beauchemin
Assembler
Pratt & Whitney
Machine Tool Division

Walter Wilde
Production Coordinator
Central Moloney
Transformer Division

Johnnie L. Phillips
Tracer Lathe Operator
Quincy Compressor
Division

Joanne Dingler
Electronics
Production Inspector
Elox Division

Page 10

Bill Vezzetti
Painter
Quincy Compressor
Division

June Ross
Inspector-Tester
Crucible Magnetics
Division

Howard Salsman
Machinist
Crucible Magnetics
Division

Mike Campbell
Oil Line Processor
Central Moloney
Transformer Division

Page 12

Joseph Fodor
Electric Technician
Pratt & Whitney
Machine Tool Division

Roy Richardson
Quality Control
Inspector
Fairbanks Morse
Engine Division

Andrea Reese
Accounts Payable
Clerk
Fairbanks Weighing
Division

Margaret Hilton
Forklift Operator
Quincy Compressor
Division

Page 15

Arthur Salvetti
Computer Operations
Manager
Crucible Specialty
Metals Division

Rick Honaker
Millwright
Crucible Alloy
Division

Betty Sika
Accounting Clerk
Crucible Specialty
Metals Division

Ted Spencer
Foreman—
Anneal & Pickle
Crucible Stainless
Steel Division

Page 17

Phyllis Sigman
Etcher
Crucible Specialty
Metals Division

John Kruppa
Supervisor—Machine
Crucible Materials
Research Center

Sam Tremont
Wire Drawer
Crucible Specialty
Metals Division

John J. Vogelbacker
Marketing Analyst
Crucible Specialty
Metals Division

Page 18

Ray Holbert
First Helper—
Electric Furnace
Crucible Stainless
Steel Division

Merle Greene
Product Specialist—
Tool Steel
Crucible Specialty
Metals Division

Sam Bova
Shipper—
Bar Finish Shop
Crucible Specialty
Metals Division

Anthony Vagnoni
Senior Industrial
Engineer
Crucible Specialty
Metals Division

Page 21

Howard Solley
Metallurgist
Chandler Evans
Control Systems
Division

James Rucker
Machine Operator
Fairbanks Morse
Pump Division

Keith Marsh
Designer
Holley Carburetor
Division

Marvin Gies
Project Engineer
Chandler Evans
Control Systems
Division

Page 23

Kenneth Robinson
Manager—
Manufacturing
Engineering
Fairbanks Morse
Pump Division

Lynette Kring
Secretary
Fairbanks Morse
Pump Division

Elden Chapman, Jr.
Assembler
Chandler Evans
Control Systems
Division

Andy Guria
Advertising Manager
Holley Carburetor
Division

Page 25

Rex Kelly
Press Operator
Garlock Truck
Products Division

Dave Ashley
Braider Operator
Garlock Mechanical
Packing Division

DeWayne Hares
Punch Press Setup Man
Garlock Mechanical
Packing Division

Jake Walker
Senior Lab Technician
Garlock Special
Products Division

Page 26

Nelson Herold
Production Planner
Garlock Special
Products Division

Betsy Harris
Sales Coordinator
Garlock Special
Products Division

Dallas Luther
Braider Setup Man
Garlock Mechanical
Packing Division

David G. Boyd
General Foreman—Metal
Stamping
Garlock Oil Seal
Division

Page 29

Joseph Leniart
Assembler
Firearms Division

Jeanette Lee
Assembler
Firearms Division

Bertrand R. Michaud
Final Inspector
Firearms Division

Luis Rodriguez
Assembler
Firearms Division

Design: Arnold Saks, Inc.
Photography: Burk Uzzle, Magnum

Colt Industries Inc
430 Park Avenue
New York, NY 10022

Colt Industries